Jan Timmer's next task
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FINANCIAL TIMES

Europe's Business Newspaper — MONDAY AUGUST 15 1994 — D8523A

Berlusconi and Bossi make show of coalition unity

Italian prime minister Silvio Berlusconi and the Northern League's Umberto Bossi, partners in the country's ruling coalition, made a concerted effort over the weekend to show they had patched up their differences.

The two held a secret summit to thrash out a pact, although some Italian observers seemed sceptical about whether it would hold. Fears of a split in the coalition have contributed to tension on Italian financial markets in the last fortnight. Page 14

Probe into satellite TV company: Britain's Office of Fair Trading is conducting preliminary inquiries into satellite TV company BSkyB's position in the UK satellite and cable television market. Page 15; Cable network may hand government a £1bn windfall, Page 6

World Cup profits roll in: International businesses from airlines and hoteliers to television manufacturers and brewers have begun to disclose the scale of profits they made from this summer's football World Cup. Page 14

Reed Elsevier, Anglo-Dutch information and publishing group, is today expected to announce details of a compensation package for Peter Davis, who resigned as chairman in June over changes in management responsibilities. Page 16

Israel in Palestine customs deal: Israel and the Palestinians agreed customs and indirect tax measures and said they were close to an accord on the next phase of their peace process – transfer of administrative powers from Israeli to Palestinian hands in the occupied West Bank. Page 4

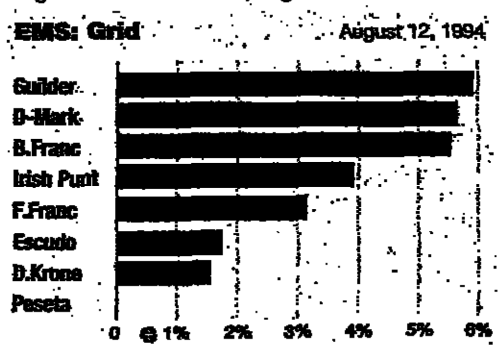
Derivatives 'a risk': Just over half of finance directors at the UK's top companies regard derivatives as a possible risk to financial systems while 16 per cent see them as a definite risk, according to a survey. However most believe that derivatives play an important, even essential, role in the management of risk. Page 15; Cure for angst, Page 12

Emap, UK media group, is buying three of the best known UK golf magazine titles for £11.25m ($17.3m) from The New York Times. Page 16

Train crash kills 24: At least 24 people were killed and 16 injured on Saturday when a passenger train slammed into a stationary freight train just outside the Georgian capital of Tbilisi after a signalling error, the health ministry said yesterday.

European Monetary System: The EMS grid had a fairly turbulent week, prompted by higher interest rates from two countries outside the grid, Sweden and Italy. The result was a large increase in the position of the strongest currency against the weakest, generalised D-Mark strength, and the Irish punt being displaced at the top of the grid by the Dutch guilder. The D-Mark also climbed above the Belgian franc. Currencies, Page 27

EMS: Grid August 12, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

International Business Machines has backed away from plans for heavy promotion of PowerPC microprocessor technology, developed with Apple Computer and Motorola, as a replacement for the Intel chips that dominate the personal computer industry. Page 17

Baby Bells to fight bill: US local telephone companies still plan a fight over some portions of the telecommunications bill now making its way towards the Senate floor, even though they accepted a compromise on some of the conditions it would place on their entry into the long distance telephone market. Page 4

Tokyo minister forced out: A Japanese cabinet minister was forced to resign after complaints from South Korea and China over his comments that Japan did not intend to fight a war of aggression in the 1930s and 1940s. Shin Sakurai, director general of the Environment Agency, suggested that occupation had benefited parts of Asia. Page 3

Charter, UK industrial group, will today announce whether it is willing to pay more for Esab, the world's largest welding equipment supplier, than the £260m ($402m) recommended bid rejected by a key group of the Swedish company's institutional shareholders. Page 17

Spy trials to start: The trial of five members of Albania's ethnic Greek minority on charges of treason, espionage and illegal possession of weapons, opens today in Tirane following several weeks of angry diplomatic exchanges between the two neighbouring governments. Page 2

Win for Schumacher: Formula One championship leader Michael Schumacher of Germany recorded his seventh victory of the motor racing season when he won the Hungarian grand prix in a Benetton. Greens save trees at expense of turbos, Page 14

Clinton fights to rescue crime bill

President's reform agenda hangs on fate of key legislation

By George Graham in Washington

President Bill Clinton fought back yesterday to rescue his crime bill, a key component of his domestic agenda that was blocked by the House of Representatives last week in the most shattering defeat of his 18-month-old presidency.

White House officials believe they can salvage victory from defeat by launching a concerted attack on opponents of a measure which is generally popular.

Mr Clinton has signalled how much rides on the fate of the crime bill by focusing on the issue almost exclusively since last Thursday's vote. The fate of the crime bill and the president's healthcare reform programme is widely seen as a defining test of whether Mr Clinton's domestic agenda can survive.

It would not be the first time that the Clinton team has recovered quickly from apparent defeats. The president pulled off narrow victories on issues such as the budget and the North American Free Trade Agreement after last-minute campaigns of personal lobbying.

However, some administration officials are worried that they are having to switch all their resources to pass the crime bill at a moment when Mr Clinton's biggest objective, healthcare reform, is stalled in both the Senate and the House.

At the same time, Mr Clinton continues to be hamstrung by the scandals and distractions that have dogged his administration. Mr Roger Altman, the deputy Treasury secretary, was reported at the weekend to be likely to step down in the next fortnight after failing to convince senators that he had not misled them in his testimony on Whitewater.

"It has been discussed, and the fundamental question is whether he can re-establish the Senate's confidence," Mr Leon Panetta, the White House chief of staff, said yesterday.

With rare single-mindedness, Mr Clinton has spoken about nothing but crime since Thursday's procedural vote in the House which blocked the bill.

After calling a press conference immediately after the vote, the president hastily arranged to address the National Association of Police Organisations in Minneapolis on Friday and on Saturday devoted his weekly radio address to crime. Yesterday, he went to a Maryland church to sustain the barrage with another speech on the same subject.

Some Democrats believe they have already wrong-footed the Republicans, who urged the president to strip out the bill's ban on assault guns and put it to a separate vote. Republicans originally claimed they had voted to block the bill only because it had too many social programmes which Mr Clinton has advocated "to give kids something to say yes to."

Stripping out the ban on assault guns to rescue the bill is unacceptable, senior Democrats insist. While in many parts of the US voters want their members of Congress to vote against gun control, a ban that does not inconvenience hunters continues to command widespread popular support, even among gun-owners.

If the White House can turn the debate into a straightforward vote on gun control, it stands a good chance of getting past last week's procedural block and bringing the measure to a final vote it is confident of winning.

"If this bill comes to a vote it's going to pass. Everyone knows that," said Mr Panetta.

What worries Mr Clinton's supporters is whether the push on the crime bill can be turned into a sustained improvement in the focus of the administration – the sort of improvement Mr Panetta's appointment last month was intended to bring about.

Rivals set to bid for remains of Canadian insurer

By Janet McFarland in Toronto and Alison Smith in London

Rival North American insurance companies are already expressing interest in buying elements of Confederation Life Insurance, Canada's fourth-largest insurer, which was seized by financial regulators last week.

Their reaction comes against a background of concern about the longer-term damage Confed's collapse will inflict on Canada's insurance market. With assets of C$19.2bn ($13.9bn), Confed is the largest insurance company ever to fail in North America.

Ms Suzanne Labarge, Canada's acting superintendent of financial institutions, said regulators would move quickly to sell assets before their value was eroded.

Insurers that have expressed a public interest in acquiring parts of Confed include Great-West Life Assurance, North American Life Assurance and Aetna Canada.

Mr Paul Cantor, Confed chief executive, said negotiations announced last week to sell the company's British operation to a financial services group were continuing, and the sale should be announced "very soon".

The buyer is thought to be a Canadian insurer with UK operations, suggesting Sun Life as a bidder because it has available cash for acquisition.

Canadian regulators took control of 123-year-old Confed last Thursday to prevent a run on its policies and deposits after the failure of long-running efforts to bail it out. The mutual insurer, which has fallen victim to the North American property slump, had suffered a rapidly eroding capital base leaving it unable to meet liabilities.

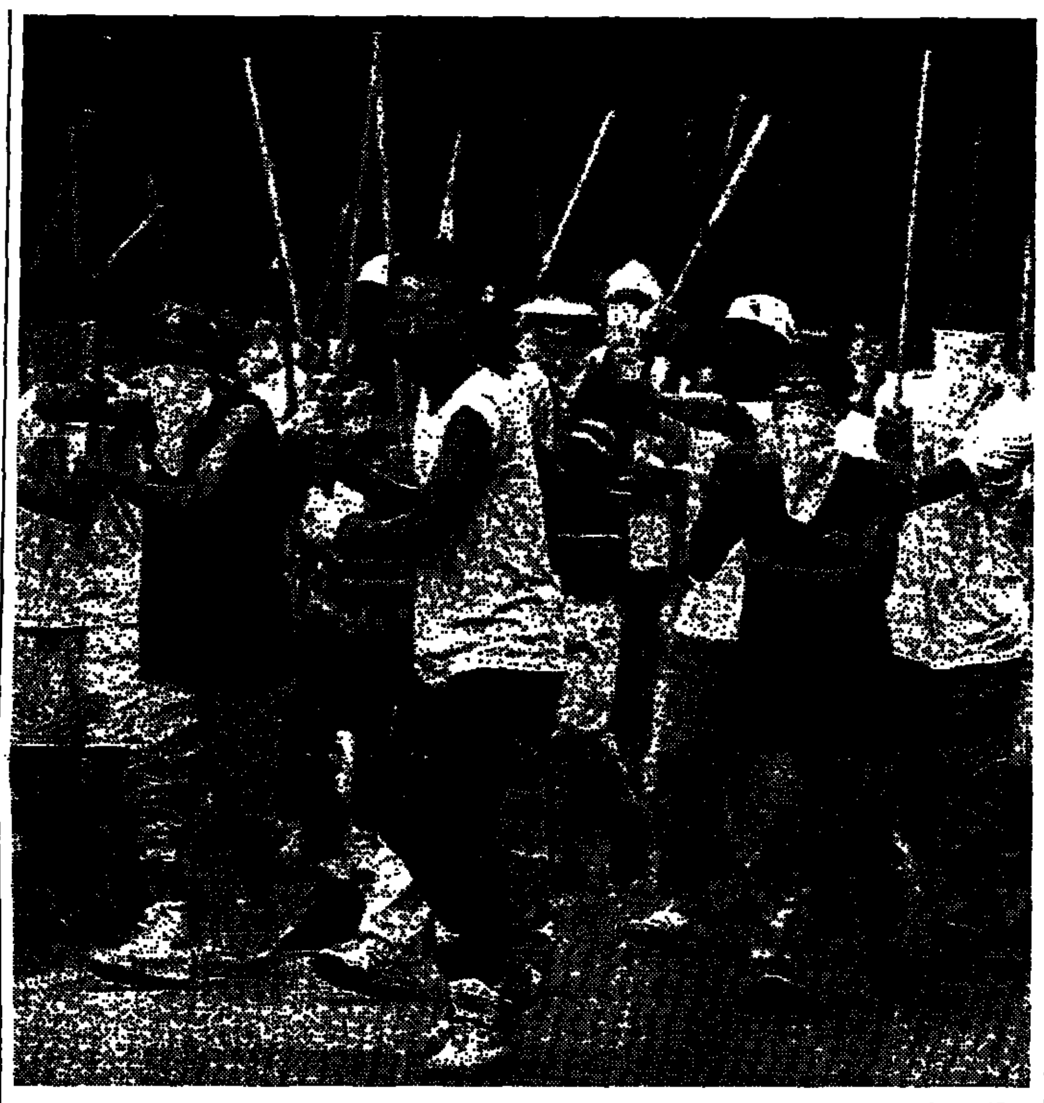
The regulators will apply today for a court order to wind up the operations of the company and will order accountancy firm Peat Marwick Thorne, which is managing the company for the regulator, to sell as many of Confed's assets as possible to other insurers.

But the cheap buying opportunities for rival companies will be eclipsed by the severe damage the Canadian industry will suffer for years, according to the country's insurance officials.

Mr Mark Daniels, president of the Canadian Life and Health Insurance Association, which represents insurance companies, said the most direct financial hardship for the industry would be the amounts levied from each company to act as a safety net for policyholders.

The fund protecting policyholders, known as CompCorp, is fully industry-sponsored, through payments all insurers have to make each time a company fails.

Many smaller insurers are already struggling to survive in a highly competitive market of 150 life insurers. Analysts predict some of them will overburdened by the contributions they will have to make to CompCorp.



Associated Press

Hundreds of stick-wielding demonstrators prepare to confront South Korean riot police on the campus of Seoul's National University. About 7,000 students gathered for an outlawed pro-unification rally called to mark the 49th anniversary of Korea's liberation from Japanese colonial rule. Korean accord, Page 4

Nato hopes to avoid dispute in hunt for leader

By Bernard Gray in London and Emma Tucker in Brussels

Nato will this week start the difficult task of finding a secretary general to replace Mr Manfred Wörner, who died on Saturday, with leaders of the alliance desperate to avoid the kind of public arguments which dogged the succession to Mr Jacques Delors as president of the European Commission.

The two names most frequently suggested as possible replacements are Mr Thorvald Stoltenberg, a former Norwegian foreign minister and currently UN peace mediator in former Yugoslavia, and Mr Giuliano Amato, the former Italian prime minister.

Nato's involvement in the former Yugoslavia means that Mr Stoltenberg's experience would be useful, and Norway has never held the top Nato job. Italy has held the post just once and Mr Amato has avoided the corruption scandals which have felled many Italian politicians.

Nato is no stranger to disputes over who should be secretary general. A bitter row broke out when Mr Wörner was appointed to the job in 1988.

The task is complicated because the change comes at a critical time for the alliance. The prospects for peace in Bosnia are deteriorating and the relationship between Nato and its old Warsaw Pact adversaries is evolving rapidly. Finding a candidate quickly with sufficient standing to guide Nato through these changes will be difficult.

However, officials in Brussels are keen to act quickly once they have paid their respects to Mr Wörner. "Nato has seen what the Commission went through and will want to avoid a repetition," said one diplomat. As most politicians and Nato ambassadors are currently on holiday, a meeting to discuss a successor cannot be organised before September.

Mr Ruud Lubbers, the outgoing Dutch prime minister who was a candidate to replace Mr Delors was also mentioned as a Nato candidate, but his office said this was unlikely. Mr Sergio Balanzino, the deputy secretary general, will head the alliance until a successor is found.

As Nato officials pondered possible replacements, tributes to Mr Wörner flowed in. President Bill Clinton described him as a "true and loyal friend" of America. Mr Volker Rühe, the German defence minister said: "He was

Continued on Page 14
Manfred Wörner obituary, Page 2

US telecom carriers attack rivals who call the customers

By Bronwen Maddox in New York

They give a new twist to the phrase "Don't call me, I'll call you". The "callback" services mushrooming across the US now offer a way to avoid the high rates for international telephone calls charged by many countries. But their huge popularity is attracting furious opposition from established telecommunications carriers, who are pressing for the services to be made illegal.

Callback takes advantage of the gap between the low prices for international calls in the deregulated and intensely competitive US telecommunications market and the high charges in many other countries, particularly those where the service is dominated by a state-owned PTT. Japan, for example, despite deregulation, still charges high prices for international calls.

To use the "call-back" service, a caller in Japan dials the number of one of the 100-odd callback bureaux which have sprung up across the US. The caller hangs up after a single ring, and a programmed switch in the bureau calls back with a dial tone from a US carrier's line. The caller can then use that line to call anywhere in the world – and will pay only US rates.

Mr Dennis Anderson, vice-president of Colorado-based International GeoTel, estimates that his service halves the usual $2 per minute charge to call from Tokyo to the US in peak time.

His company, which started late last year and already has more than a thousand business customers, is targeting businesses in Latin America, the Pacific rim, Italy, Spain, Greece and Eastern Europe, which have the most expensive international calls.

The callback operators see themselves as pioneers testing technical and legal frontiers.

The development of these services in the past year has been driven partly by the invention of the call-back switch.

But explosive growth this summer has followed a ruling in May by the US Federal Communications Commission that such devices were not illegal, despite fierce opposition from US carriers and some overseas PTTs.

The US carriers AT&T, MCI and Sprint argue that they are not recompensed for the cost of the initial call to the US.

Telephone companies to fight Senate bill, Page 4

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£30.00
France	FFr9.50	Kuwait	Fils625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal(mainland)	Esc225	Turkey	L30000
						UAE	Dh12.00

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OBITUARY: MANFRED WORNER

Presiding over era of tumultuous change

Manfred Wörner: like Nato forces, "leaner and meaner"

Manfred Wörner, who died on Saturday aged 59, presided over the North Atlantic Treaty Organisation during the end of the cold war and the beginning of its unpredictable aftermath. It has been a period of tumultuous change, raising questions about the whole purpose and future of the alliance. His recent claim that these uncertainties had been overcome was not fully convincing. But there can be no doubt that his own stature increased as the job of Nato secretary-general became ever more challenging.

It was unimaginable when he was appointed to the Brussels post in 1988 that a Nato leader should come to spend much of his time visiting and receiving visits from what was then the Warsaw Pact. It was equally inconceivable that Nato – any more than its cold war adversary – should be thought of as a suitable instrument for peacekeeping or peacemaking outside its frontiers.

The criticism now directed at Nato for the absence of decisive action in Bosnia is a measure of how much has changed. A long debate about "out of area" action is now over. It has moved from being a virtually taboo subject to the centre of Nato business, to the extent that the phrase "out of area" has fallen into disuse.

Wörner felt strongly about the tragedy of former Yugoslavia but was defensive about Nato's record there. He looked at it from the viewpoint of Nato as an organisation, which indeed has performed all the tasks the UN has asked of it, rather than as a collectivity of nations which between them have much to answer for in the Bosnian catastrophe.

His appointment was controversial in the early stages, but he grew into the job and proved equal to the momentous changes the alliance had to undergo. Some found him brash and vain, but he earned their respect. At the Nato summit last January President Bill Clinton paid him tribute as "a genuine statesman", praising his "great vision and discipline". Although he had previously had a successful political career in Germany, his reputation was higher outside his own country than within it.

Born near Stuttgart in 1934, Wörner attended university at Heidelberg and Paris and undertook further legal studies in Munich and Stuttgart, devoting his doctoral thesis to defence relations between allied countries.

After working as an adviser to the Christian Democratic Union in Baden-Württemberg, he was elected in 1965 to the *Bundestag*, where he became chairman of the defence committee. From 1982 to 1988 he was minister of defence, a period which included the launching of the Eurofighter project. He is credited with coining the phrase *Bürger in Uniform*, or citizen-soldier, as the expression of the new face of the German military.

> At the end of his four-year term, the allies extended his tenure by another year and then by another three years

When he went to Nato in July 1988 he was not only, at 53, the youngest man to do the job but also the first German. Germany was at the heart of Nato in the military sense – on the front line and still with troops from five other Nato countries on its territory – but was becoming a more awkward ally, particularly over nuclear weapons policy.

Doubts were expressed whether this suave former fighter pilot in the German air reserve had the political pull in Bonn, particularly vis-à-vis the then foreign minister, Hans-Dietrich Genscher, that other allies felt was badly needed. He did not seem to have the clout of his predecessor Lord Carrington.

One senior Nato diplomat commented at the time: "It was right that it should be a German. But the question is: was it the right German?"

However, his intelligence, honesty and sheer commitment shone through. At the end of his four-year term, unable to agree on a successor, the allies extended his tenure by another year and then by another three years.

Sadly, the principal candidate to take over from him, Norwegian foreign minister Johan Jörgen Holst, died in January.

Wörner knew in 1992 he had cancer of the colon and underwent a series of operations, but was determined to complete the job of overseeing Nato's transition and its moves towards incorporating the countries of eastern Europe.

He referred only once in public to the disease, joking that he had become, like Nato's much-reduced forces, "leaner and meaner".

On the eve of the January summit he told the allies he had been declared free of cancer and intended to go on to the end of his term in mid-1996.

He was a distinctive figure, with a fixed stare, accentuated by his recent gauntness, a sometimes ponderous manner and a penchant for hyperbole which led him to describe almost any Nato gathering as "historic". But without his passionate belief in the transatlantic alliance Nato would be in a worse state than it is. Replacing him will not be easy.

His widow, Elfie Reinsch, was his second wife. He had a son by his first marriage.

David White

Dutch left and right unite to rule

Ronald van de Krol on the Netherlands' forthcoming 'purple' coalition

The Netherlands is about to make first-hand acquaintance with the old adage that politics makes strange bedfellows.

By the end of the month, the country will find itself governed by the first left-right coalition in its history, bringing together three unlikely allies – the Labour party, the right-wing Liberals and the left-of-centre D66.

The unusual "purple" coalition – so called because of the mix between the Labour "reds" and the Tory "blue" Liberals – will squeeze the centrist Christian Democrats out of power for the first time in memory, ending their era as the natural party of government.

The odd grouping of parties in the new coalition is underlined by the personalities of the main protagonists.

Mr Wim Kok, the Labour leader and the man destined to be prime minister, is the son of a carpenter. He studied business but went on to become the leader of the Dutch labour union federation before entering politics. His counterpart in the Liberal party, Mr Frits Bolkestein, is a former Shell executive with a posh accent and a fondness for tennis. Mr Hans van Mierlo, D66 leader, is one of the few Dutch politicians who could be accused of possessing charisma. A former journalist, he founded the D66 party in 1966 in an attempt to break the mould of Dutch politics.

The advent of a left-right cabinet will not, however, herald radical changes. "Left" and "right" are relative terms in the Netherlands, and the three coalition parties have not put forward a programme significantly different from what the Christian Democrats would have tried to achieve.

Boosting employment will be the main goal of the new cabinet, which is to be inaugurated before the end of the month with Mr Kok as prime minister.

Government spending is to be cut by Fl 18bn ($10bn), with about half given back to households and the business community in the form of lower taxes and social premiums. By reducing the cost of labour to companies, the new government hopes to foster the creation of 125,000 jobs. In addition, economic recovery should lead to 230,000 extra jobs in the government's four-year term in office.

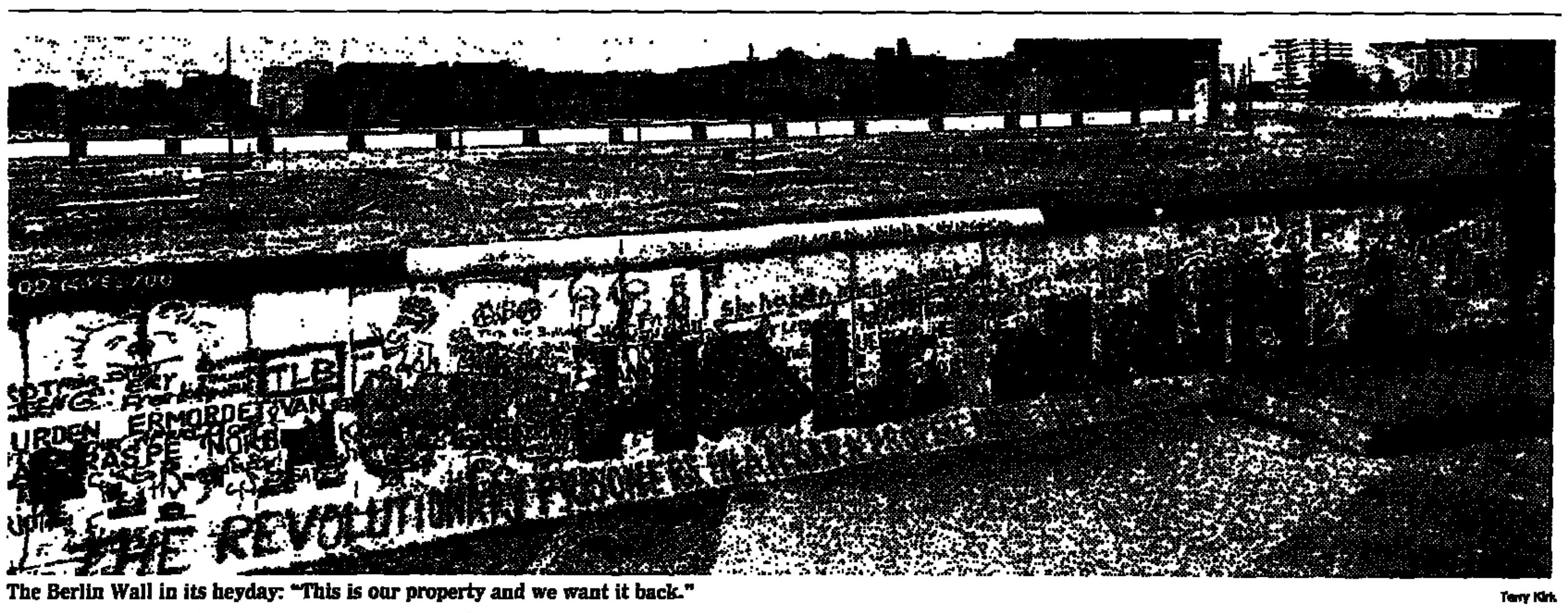
Social spending will be cut in some controversial areas, but the level of unemployment and disability payments will not be lowered.

People covered by the national health scheme will be required to pay a deductible of Fl 200 a year for medical treatment, as a way of both reducing the cost of health care and discouraging unnecessary visits to doctors.

The wide-ranging government plan also covers topics from Amsterdam's Schiphol Airport – night flights from which are to be curbed – to slightly more liberal shop opening hours.

Indeed, it is the detail in the 69-page plan that explains, in part, why it has taken the Netherlands more than 100 days to come up with a new government since the May 3 general election.

But another factor is the sheer unfamiliarity of an attempt to bring together parties from opposite sides of the narrow Dutch political spectrum.



The Berlin Wall in its heyday: "This is our property and we want it back." Terry Kirk

Berliners demand their homes back

Those who lost land when the Berlin Wall went up think it is time to reclaim it, writes **Judy Dempsey**

They had gathered on Saturday at the site of the former Berlin Wall in Bernauer street, 33 years to the day after east German troops moved in with bulldozers to divide the city.

About 100 people, many frail and elderly, stood on this long, narrow strip of wasteland in east Berlin. It had been turned into mud by the torrential rain but they had come determined not to celebrate the collapse of the wall nearly five years ago, but to demand from the German government the right to regain property which they had been forced to leave when east German troops ordered them out of their homes to make way for the wall on the night of August 13 1961.

"All we want is justice," says Mr Wolf-Dietrich Golz, who two years ago helped establish an association for those seeking compensation or restitution.

"The German government refuses to return our property to us," says Mr Golz. "Their excuse is that since all property along the Berlin Wall belonged to the former east German defence ministry, it should automatically be passed under the control of the German state. But why? Why is it that those whose property was confiscated by the Nazis between 1933 and 1945, or by the communists between 1949 and 1990, can seek compensation or restitution, but not us?"

The Berlin Wall ran like a snake along 165km of the city, cutting through 3,000 homes.

"I remember August 13 1961 very well," says Mr Golz, 54. "It was a warm, quiet summer's night. We were living on Finkenkruger Street in Spandau, not in the British zone, but in the eastern/Soviet zone. I had been writing a love letter. Then I heard the dogs, the bulldozers, the soldiers. The next morning, I looked out the window. Finkenkruger Street had been divided. We were locked in."

"Even before the wall had been built, it was sheer hell to live there. In the late 1940s, when the Russians carved out their zone in east Berlin, life became very difficult. We were surrounded by guards."

Mr Golz's mother eventually moved to Bavaria, leaving the family house to her son in her will. "I was studying at the time in Dresden. I went back from time to time to my home. Then in 1967, the home was flattened. I received no notification. No compensation. Nothing."

The wall along Finkenkruger Street has since been removed. All that remains is a long avenue of overgrown grass and shrubs. East and West Berliners can now see each other again. "I want to return there and rebuild my house," says Mr Golz.

Over 1,400 Berliners who once lived on the site of the Berlin Wall want to do the same, or else seek compensation. But Mr Gerhard Schiele, a Free Democrat and member of Berlin's chamber of deputies, says the chances are slim.

"Mr Theo Waigel [the finance minister] does not want to give the claimants any compensation because it would cost too much money. And the justice ministry, which used to be under Mr Klaus Kinkel [now the foreign minister], and who helped draw up the unification treaty, is afraid that if the law is amended it will create a precedent for other property claims. These are the real reasons for the government holding onto their property, which by the way, is very valuable."

The dispute has not only pitted east Berliners against the German government. It has caused a rift between the Berlin Senate and Bonn. "The Senate has repeatedly demanded a change in the law," says Mr Klaus Kilian, an official from the Senate's justice department. "The Bundesrat [Upper House] last June suggested some degree of restitution or compensation, but the Bundestag [Lower House] will never agree. If it were allowed, it could set a precedent for other claimants. These could include those whose land was expropriated by the Soviet administration in eastern Germany between 1945 and 1949."

Mr Kilian says the dispute is also delaying investment and planning in Berlin. "We cannot develop large sections of the former wall until this matter is settled," he says. "Investors are very wary."

In the meantime, former property owners along the Berlin Wall are determined to continue their struggle. "This is about justice," says Ms Inge Bergk, a veteran campaigner whose parents had lived on Bernauer Street. "If East Germany no longer exists, then the old law which placed all Berlin Wall property under the communist defence ministry no longer exists as well. This is our property and we want it back."

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Ethnic Greeks go on trial in Albania

By Kerin Hope in Athens

The trial of five members of Albania's ethnic Greek minority on charges of treason, espionage and illegal possession of weapons, opens today in Tirane following several weeks of angry diplomatic exchanges between the two neighbouring governments.

Greece is threatening to veto Ecu23m ($28m) in European Union financial assistance to Albania because of the Albanian decision to go ahead with the trial.

The EU has already tried to assuage Greek concern over the minority's position by linking release of the aid to Albania's record on protecting human rights.

However, the stand-off with Albania, together with Greece's six-month trade blockade of the former Yugoslav republic of Macedonia, underline the continuing reluctance of Greek policymakers to try to reduce tension in the Balkans.

The five defendants, all prominent members of Omonia, an ethnic Greek political organisation, were arrested in April, shortly after an attack on a military post close to the Greek border left two Albanian soldiers dead.

The incident caused a sharp deterioration in Greek-Albanian relations, already uneasy because of complaints of discrimination against ethnic Greeks, who claimed they were refused titles to land being privatised or were unable to bid for small businesses being sold off by the state.

Greece rejected an Albanian accusation that the raid was carried out by Greek commandos on orders from the government. However, speculation persists in Athens that it was organised by a group of dissident Greek soldiers, opposed to the Socialist administration's efforts to improve ties with Tirane, in co-operation with hardline ethnic Greeks in Albania.

The indictment claims the five ethnic Greeks were conspiring with nationalist organisations in Greece to establish autonomy for Northern Ipiros, the region adjoining the Greek border where the minority lives, and eventually unite it with Greece.

The Greek government is also threatening to expel many of the estimated 150,000 Albanian immigrants working illegally in Greece and to block remittances in drachmas to Albania.

However, there are fears that a wave of expulsions could bring retaliation against the ethnic Greeks in southern Albania.

The dispute has already slowed down Greek investment in Albania, which has been promoted in the past by the Greek government as the most effective way of improving bilateral relations.

EUROPEAN NEWS DIGEST

Germany to act on smuggling of nuclear material

Chancellor Helmut Kohl will send a special envoy to Moscow to find out how nuclear material is being smuggled into Germany after police in Bavaria last week seized 50 grams of enriched plutonium carried on a recent Lufthansa flight from Moscow to Munich. It was the third seizure in four months of weapons-grade material from the former Soviet bloc and confirmed fears that Germany has become the main transit route for such smuggling since the end of the cold war opened a black market for nuclear contraband from the east.Speaking on German television last night, Mr Kohl said he would also speak to President Boris Yeltsin to seek help in tightening up security. "Every possible step must be taken to prevent such things from happening in the future," he said. At the same time, Mr Klaus Kinkel, the foreign minister, yesterday told Bild am Sonntag newspaper that a "new control system for plutonium" should be set up. "Travelling salesmen with nuclear suitcases pose a new atomic danger," he said. Police told Der Spiegel magazine, which broke the story, that the smuggling of weapons-grade nuclear materials could have been organised by Libyan, Iranian, or Iraqi diplomats. *Judy Dempsey, Berlin*

Epidemics threaten ex-USSR

A wave of epidemics is threatening the former Soviet Union. One person has died of anthrax in Ukraine this week and there is a risk of a cholera outbreak in Moscow, where the disease has already claimed one victim. Health officials said 24 people suspected of carrying the disease escaped from police detention over the weekend after Moscow police had tried to hold a group of 67 visitors from the southern Russian region of Dagestan, the source of an epidemic which has affected 375 people and killed 12. Russia's deputy health minister has called for the entire republic of Dagestan to be put under quarantine. Five villages in the region have already been isolated. Over the weekend, health authorities in neighbouring Ukraine issued an anthrax warning. Fourteen people in Ukraine are known to be infected with anthrax. *Chrystia Freeland, Moscow*

Dividend scheme uncovered

The Economics Ministry in the German state of Hesse has uncovered 179 cases of a stock market phenomenon known as dividend-stripping. German newspapers reported over the weekend. The reports, quoting the Czerwensky Intern newsletter, said the transactions concerned had involved 5.9m shares with a value of more than DM2bn ($1.2bn) and were based on brokers' data from 1991. In dividend-stripping transactions, which fall into a legal grey area, shares are exchanged between domestic and foreign shareholders just before a dividend payout so the domestic operator holds the shares when the payment is made. This means the domestic shareholder can take advantage of a tax credit accompanying the cash dividend which is worthless to a foreign investor. The shares are then sold back to the foreign party at a fixed lower price, allowing the two parties to split the effective cash value of the tax credit. *Reuter, Frankfurt*

Kohl 'would serve full term'

German Chancellor Helmut Kohl will stay in office for all four years of the next parliament if he wins October's general election, he said yesterday. Mr Kohl, 64, denied accusations by the opposition Social Democrats that he would deceive voters by stepping down in mid-term if he won, making way for his hardline right-wing lieutenant Mr Wolfgang Schäuble. "I have made it quite clear to my party and in public before the election that I want to run again," Mr Kohl, who has been chancellor since 1982, told German ZDF television in his Austrian holiday retreat of St Gilgen. "I want to know [if the voters still back me], and I will naturally run in order to make full use of the time given to me by the voters." *Reuter, Bonn*

General denounces army plan

General Alexander Lebed, the hardline commander of the Russian 14th army in Moldova, yesterday denounced plans to pull his army back into Russia and remove him from his post. He described last week's agreement between Russia and Moldova on a three-year timetable for the withdrawal as "a crime" and said that he would not be "an obedient performer" of Moscow's orders. Gen Lebed's outburst, just a month after he described Russian President Boris Yeltsin as "a minus", poses an immediate threat to the delicate rapprochement between Russia and Moldova and could further undermine Moscow's control over the military, particularly units serving outside Russia's borders. Some observers fear that the charismatic general could act as a focal point for Russians who lament the collapse of the Soviet Union. *Chrystia Freeland, Moscow*

Bosnian accord on snipers

Bosnia's rival Serbs and Moslems yesterday signed a UN-brokered accord to halt sniping in Sarajevo within 24 hours and promised to patrol high-risk areas with UN peacekeepers to stop disobedient marksmen. "The sides shall undertake within 24 hours to issue publicly orders which explicitly forbid sniping activities against military personnel, civilians and UN personnel in the Sarajevo region," the agreement said. The accord was signed by Serb and Moslem political, military and police commanders and UN military chiefs. The sides pledged to form joint patrols with the UN to flush out snipers who disobey orders. Above: *Gen Dragomir Milosevic, commander of the Serb Sarajevo Corps, signs the accord. Reuter, Sarajevo*

French employment up

Further evidence emerged yesterday of the recovery in the French economy with the news that the number of salaried employees, rose by 60,000, or 0.4 per cent, to just over 9m in the second quarter of this year, according to the Employment Ministry. This continues the upward trend of the first quarter, when salaried employment rose by 0.2 per cent. It follows the news that the overall level of unemployment experienced its biggest fall for four years in June with the number of jobless dropping by 13,000 to 3.33m, or 12.6 per cent of the workforce. Economic growth in France during the first quarter was higher than expected at 0.7 per cent rather than its original estimate of 0.5 per cent. *Alice Rawsthorn, Paris*

Chechen war of words grows

Russia's rebel region of Chechnya intensified its war of words with Moscow yesterday, threatening to shoot down Russian helicopters flying over parts of the self-declared Caucasus republic, Itar-Tass news agency reported. It said the warning applied only to Russian military helicopters flying over the Nadterechny region, a stronghold of opposition to Chechen President Dzhokhar Dudayev. The republic's general staff believeRussian helicopters are supplying the Moscow-backed opposition to Dudayev. Chechnya, one of 21 semi-autonomous ethnic regions in the Russian Federation, declared independence in 1991 but has not won international recognition. Mr Dudayev imposed a state of emergency on Nadterechny last week and ordered the mobilisation of all men between 15 and 55 in a bid to resist any invasion from Moscow. *Reuter, Moscow*

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NEWS: INTERNATIONAL

Bank Negara signals end to tough battle

By Kieran Cooke in Kuala Lumpur

Exhausted, bruised and battered, Bank Negara, Malaysia's central bank, has hung up its gloves after a seven-month battle against currency speculators.

At the end of last week Bank Negara lifted all remaining restrictions which have prevented foreigners holding short term money in ringgit, the Malaysian dollar. The move applied to a range of monetary instruments, from private debt securities to bankers acceptances, Malaysian government securities to mortgage-backed bonds.

The restrictions were the last of a broad package of measures introduced at the beginning of the year to mop up excess funds in the financial system and prevent the build-up of inflationary pressures. Malaysia's buoyant economy and a stock market which rose 98 per cent last year were partly responsible for the big inflows of funds.

However, the catalyst for the imposition of restrictions was a sudden rush into ringgit by the world's currency speculators. Ironically Bank Negara itself was the main cause of the sudden appetite for the Malaysian currency.

"It's been a long and tough fight," said one Kuala Lumpur money trader. "Many speculators were badly burned when the restrictions came in. But Bank Negara's reputation has taken a bad beating as well."

The trouble began at the end of last year when the central bank bought in large quantities of US dollars to revalue its reserves and reduce year-end book losses caused by the bank's own multi-billion dollar speculation on the foreign exchange markets. In 1992 Bank Negara lost M$9bn (£2.27bn) in foreign exchange dealings. Forex market losses in 1993 were officially put at M$5.7bn.

Senior monetary officials now privately admit that the end-1993 manoeuvre was a serious error. While it boosted the book value of Bank Negara's foreign currency and gold reserves in ringgit terms, it also caused the Malaysian currency to fall sharply – from an average of around 2.54 against the US dollar for most of 1993 to 2.73 early in January.

The world's money traders were quick to see an opportunity. They realised what Bank Negara had been doing and, judging that the ringgit was considerably undervalued, waded into the Malaysian currency. As a result Bank Negara faced trouble on two fronts. Not only was it having to mop up yet more amounts of funds coming into the country: it was also in danger of losing control over its own jealously guarded currency.

By mid-January Bank Negara was hitting back with the first of a series of restrictions designed to defeat the speculators and "capture all inflows of funds from abroad." These included imposing a negative interest rate on foreign held ringgit accounts. The measures sent shockwaves through the currency market with traders moving swiftly to offload ringgit positions. Some were badly burned as they tried to take on Bank Negara.

For several weeks the ringgit stayed in the doldrums, only slowly gaining strength on the US dollar. By early June the Malaysian currency had risen to around 2.60 to the US dollar. After the lifting of the final restrictions last Friday the ringgit was trading at around 2.56.

However, Bank Negara's victory against the speculators has only been achieved at a considerable cost. The bank's international reputation had received a severe battering due to the foreign exchange fiasco.

Imposition of the recent restrictions raised a few eyebrows in the international banking community. Malaysia has prided itself on its liberal and outward looking economic policies. Such restrictions were not seen to be in keeping with worldwide moves towards a more liberal financial regime.

Within Malaysia, Bank Negara's moves were blamed for causing nervousness among foreign fund managers. The flow of foreign funds into the Kuala Lumpur market declined sharply in the first few months of this year.

Money market analysts say Bank Negara now feels that the currency whirlwind has passed. US interest rates are rising but falling in Malaysia: there is now less foreign demand for the ringgit.

"It's been a difficult time for Bank Negara," said one Kuala Lumpur merchant banker. "But then its own actions were in many ways the cause of so many of its problems. I'm sure a few lessons have been learned."

Tokyo minister forced out in row over war

By Gordon Cramb in Tokyo

A Japanese cabinet minister was forced to resign yesterday after saying that the country did not intend to fight a war of aggression in the 1930s and 1940s and suggesting that the parts of Asia it occupied benefited from the experience.

South Korea and China protested at the comments by Mr Shin Sakurai, director general of the Environment Agency, which he made on Friday and withdrew the same night. His political future became the subject of a weekend tussle between the Liberal Democratic party and the Social Democratic party, the dominant members of the three-party coalition that took power at the end of June.

Mr Sakurai is the fourth Japanese cabinet member in eight years to be ousted because of revulsion in the region over an attempt to put a better gloss on Japan's wartime role.

His departure highlights the lack of contrition among right-leaning Japanese over actions of the imperial army, as well as ideological strains in the coalition of convenience grouping the conservative LDP, the left-wing and traditionally pacifist SDP, and the reformist New Harbinger party.

LDP leaders, while disavowing Mr Sakurai's views, appear to have sought his retention in cabinet after he apologised for having said the war led to independence for Asian countries which had been under the European colonial yoke, "popularisation of education and increased literacy" in those nations, and their subsequent economic success.

Eight to 10 government ministers, most if not all from the LDP, are expected today – the 49th anniversary of Japan's surrender at the end of the second world war – to pay homage at Tokyo's controversial Yasukuni shrine. The shrine commemorates Japanese war dead and contains remains of a number whom the western allies classified as war criminals.

The weekend episode precedes a South-East Asian tour later this month by Mr Tomiichi Murayama, the prime minister. It comes as Japan is debating a wider international role for its Self-Defence Forces, which replaced the imperial military after US post-war occupation of Japan.

A government advisory panel on Friday presented Mr Murayama with a report recommending that the country "should extricate itself from its security policy of the past that was, if anything, passive, and henceforth play an active role in shaping a new order" in the world. This would include deploying weapons in United Nations peacekeeping operations.

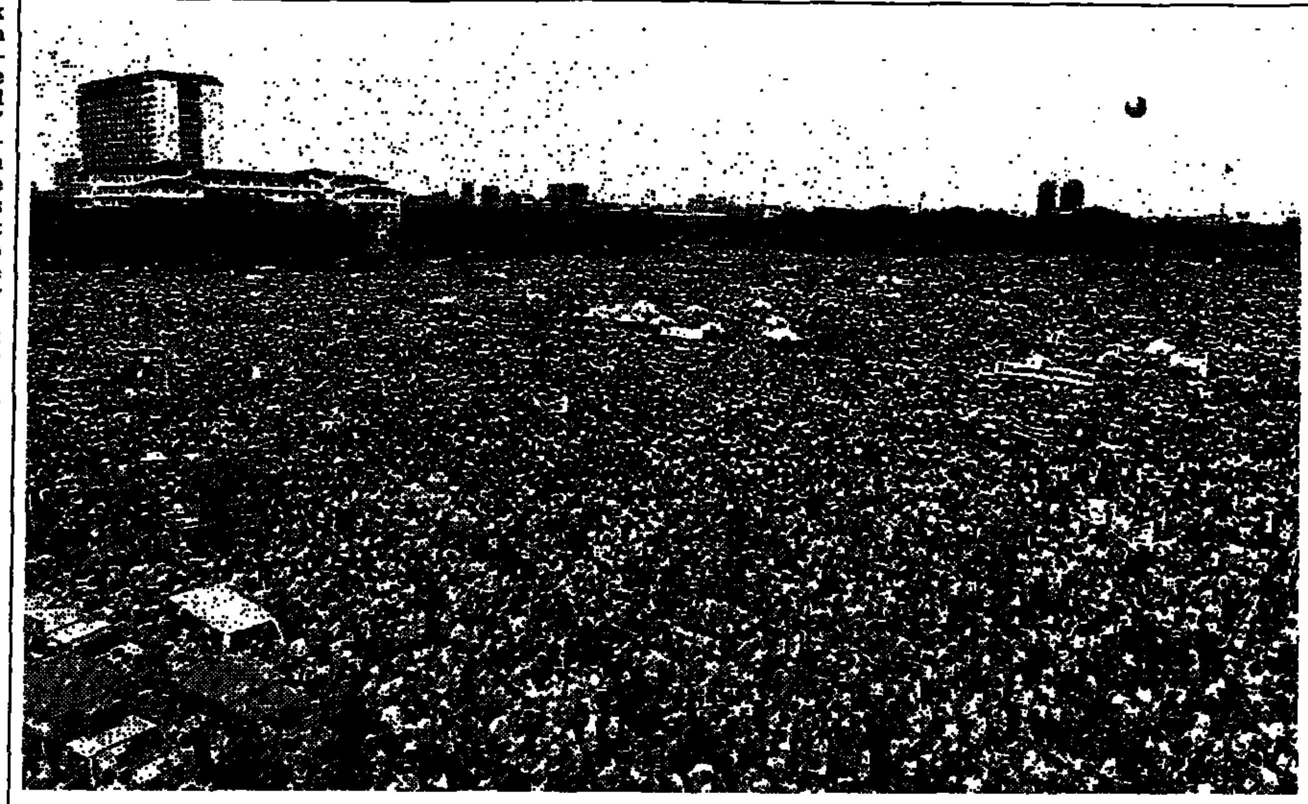
The government, like its predecessors, is meanwhile agonising over whether and how to compensate those forced to work for the imperial army in occupied countries, including so-called comfort women required to provide sex for troops.

According to one report, the administration is contemplating a Y100bn (£646m) aid fund for the victims, about 50 of whom gathered in Tokyo at the weekend to press their case.

Mr Murayama, the SDP leader, is a lifelong socialist who only on becoming premier acknowledged the legitimacy of the Self-Defence Forces as part of a policy compromise with the LDP. At 70 he is old enough to have had his pacifism motivated by direct recollection of the war, and this weekend drew the line at serving alongside Mr Sakurai, 61, whose stated impression of the era was so different.

Mr Sakurai's comments, in answer to a question at a press conference, were denounced by South Korea's ruling Democratic Liberal party as "tantamount to blasphemy against Asian countries subjected by Japan to numerous pains and sacrifices" and by China as a distortion of history.

In May Mr Shigeto Nagano, justice minister in the then government of Mr Tsutomu Hata, resigned after implying that the 1937 massacre of Chinese civilians in Nanking by Japanese soldiers was a fabrication. Mr Nagano was from Mr Hata's Japan Renewal party.



FILIPINOS DEMONSTRATE AGAINST BIRTH CONTROL

Hundreds of thousands of Filipinos (left) demonstrate yesterday against a "deluge" of contraceptives in the Third World, Reuter reports from Manila.

The demonstrators, in one of Manila's biggest protests since President Ferdinand Marcos was ousted in 1986, gathered in response to a Roman Catholic church call to oppose a government campaign to cut the country's high population growth.

Cardinal Jaime Sin and former president Corazon Aquino led the protest by burning sex magazines and a copy of a document expected to be presented at next month's international meeting on population in Cairo which the church said would promote contraception and abortion.

The Manila rally was a key part of the church's campaign to force the government to retreat from its stance on birth control before the Cairo conference.

Cardinal Sin accused a "global dictatorship" of swamping the Philippines and other developing countries with a "deluge of contraceptive drugs and instruments".

Much of his anger was directed at President Fidel Ramos's government, which has taken on the church in Asia's only Christian-majority nation by refusing to back down on its campaign to promote population control.

The government, which has repeatedly rejected church accusations that it favours abortion, tried to defuse the confrontation by urging people to take part in the rally.

But Mr Ramos, the nation's first Protestant president, strongly supports giving Filipinos the chance to limit their families by using contraceptives. The Philippines has one of the highest population growth rates in the region at 2.4 per cent a year.

Bolger to press on in NZ after key poll win

By Terry Hall in Wellington

New Zealand's National party government yesterday pledged to continue its reform programme following its narrow victory over the left-wing Alliance party in a weekend by-election.

A loss in the former National party stronghold of Selwyn would have cost the government its one-seat majority, possibly forcing an early election.

The National party's candidate, Mr David Carter, won 8,621 votes against the Alliance's Mr John Wright on 8,275.

The result means that the National party has 50 seats in parliament, Labour 45 and the Alliance and populist New Zealand First two each.

However, the government remains vulnerable to defections as the country prepares to change to a proportional representation voting system. Several MPs are expected to resign to form new right-wing or Christian fundamentalist parties.

Acknowledging this likelihood, the prime minister, Mr Jim Bolger, said he would be approaching right-wing Labour MPs in the coming week to secure their agreement to support the government on crucial issues.

"I'm not asking them to form a coalition but to work to retain the stability of the country," Mr Bolger said. "Any instability now would be very bad for the economy."

Mr Bolger made clear that the government intended to force further controversial legislation through parliament.

This includes shipping deregulation to put New Zealand in the unusual position of allowing international vessels to carry cargo between domestic ports; further asset sales, which are required to meet the government's budget surplus forecasts; and reforms of health and hospital care.

In the by-election, forced by the surprise resignation of the former finance minister, Mrs Ruth Richardson, the National party increased its share of the vote by one percentage point to 42.2 per cent, but saw its majority cut from to 886 to 346. But support for Labour collapsed to only 10.3 per cent of the vote, a distant third behind the left-wing Alliance party – a group of five minor parties including the Greens – which won 40.5 per cent.

The Labour leader, Ms Helen Clark, said the drop in support reflected tactical voting for the Alliance, which was seen to have the best chance of ousting the National party.

Ruling party in Sri Lanka faces poll challenge

By Stefan Wagstyl and Mervyn de Silva in Colombo

Sri Lanka's ruling United National Party, which has governed for 17 years, faces its toughest-ever electoral test in tomorrow's general election.

The party is braced for losing considerable support to a nine-party alliance led by Mrs Sirimavo Bandaranaike, the ageing former prime minister, and her 49-year-old daughter Mrs Chandrika Kumaratunga, the alliance's candidate for prime minister.

However, with opinion polls showing wildly differing results, it was not clear yesterday whether the opposition could capture enough seats to take power. In the last Parliament, the UNP had 125 out of 225 seats.

Mrs Kumaratunga has been attracting large crowds with her eloquence, energy and populist promises of rises in welfare handouts. But even some supporters are concerned at her reluctance to give details.

Nevertheless, many Sri Lankans believe change is in the air. At the central bus station in Colombo yesterday hundreds of people were preparing to leave to vote in their home towns and villages. Mr UN Dasantha, a fertiliser salesman, said: "People are cautious because they don't know Chandrika's policies. But we think it's time for a change."

The UNP has focused on the the economic policies of the Sri Lanka Freedom Party, the leader of the opposition alliance, which promoted socialism with disastrous results when it was last in power in the early 1970s. Pictures of food queues adorn UNP posters, with a warning about the danger of voting SLFP.

The opposition has found it hard to hit back directly. IMF-backed pro-market reforms have brought sustained growth in output, exports and foreign investment, with GDP up 5.7 per cent last year.

Mrs Kumaratunga says she will continue with reform but wants future restructuring to have "a human face." She also wants to stop corruption, which she says is widespread in the UNP.

The contestants have trod warily around the continuing civil war in the north between the army and the Tamil Tigers fighting for a separate homeland for the island's Tamil minority. Mr D B Wijetunga, the president, has taken a tough line with the Tigers whereas Mrs Kumaratunga has called for a compromise.

Baby Bells to press for more favourable rules on their access to cable television markets

Telephone companies to fight Senate bill

By George Graham in Washington

US local telephone companies still plan a fight over some portions of the telecommunications bill now making its way towards the Senate floor, even though they accepted a compromise on some of the conditions it would place on their entry into the long distance telephone market.

The seven leading local telephone companies known as the Baby Bells, which were set up by the court-ordered break-up of the AT&T monopoly in 1984, agreed to a compromise on the long distance market that allowed the telecommunications bill to be approved by the Senate commerce committee last week.

But Bell executives are still promising a battle over the bill's rules for allowing them into the cable television market while cable companies are allowed into the local telephone market.

"The key problem for us in the Senate bill right now is the sequencing and timing on cable entry," said Mr Robert Stewart of Pacific Telesis, the Baby Bell that provides local telephone service in California and parts of Nevada.

"The cable companies are basically allowed into our market after a year. The regulatory barriers in place would probably keep us out of cable for three or four or five years," he added.

A similar telecommunications bill passed the full House of Representatives with relatively little rancour in June. When the full Senate passes its version, the two bills must still be reconciled before the measure can become law. Some supporters of reform fear that Congress is running out of time to complete this before it breaks up for November's elections.

The cable companies represent probably the most serious threat to the Bells' monopoly over local telephone service.

While some long distance companies have used the argument that the Bells face no competition in their core market during the debate over the bill, it is not thought that many of them will want to go to the expense of running wires into consumers' homes. Cable companies, however, already have a network on which they might be able to carry telecommunications besides their current television programming.

The Senate bill agreed by the commerce committee last week would allow the cable companies to provide telephone service without restriction one year after enactment. But Bell officials complain that they would have to wait for the Federal Communications Commission to lay out new regulations for universal service before they could enter the cable market, which could delay them for years.

The commerce committee agreed, however, to an amendment that would prevent the new telecommunications bill from overriding court decisions or state laws that have already opened the door for Bell companies wishing to provide video services.

This could have implications for Nynex, the New York and New England Bell, which is already affected by New York state laws opening up competition, and for Bell Atlantic and US West, two other regional Bells, which have won court decisions in favour of their right to own cable companies.

Many senators feel, however, that they promised the cable industry a degree of protection from the Bells when in earlier legislation they required cable companies to carry certain types of programming.

"In the Cable Act we did assure the cable companies that because of the extraordinary regulations imposed on them, we would protect them from the intrusions of the telephone companies," said Senator Daniel Inouye of Hawaii during arguments over the telecommunications bill last week.

Korean accord is only a first step

John Burton reports on causes of optimism and worry in the US pact with the North

The framework agreement concluded between the US and North Korea on Friday night amounts to a diplomatic roadmap for an eventual solution to the dispute over Pyongyang's nuclear programme.

The essence of the accord is that the US promises to improve diplomatic and economic relations with North Korea in return for Pyongyang's acceptance of full nuclear inspections and restrictions on its ability to produce plutonium, the core ingredient for nuclear weapons.

But analysts warn the deal could still come unstuck over technical details, which will be the subject of negotiations beginning in late September.

The new accord contains many of the same elements in an US-North Korean agreement reached in July 1993, but which subsequently unravelled over disputes about how it would be implemented. It is also similar to the plan outlined by former US President Jimmy Carter during his mediation mission to North Korea in June.

The key difference between the new agreement and the July 1993 one is that the US this time has made explicit promises to North Korea for its compliance with international nuclear safeguards instead of offering vague incentives as it did earlier.

The accord also helps resolve procedural issues on the implementation of any agreement, which has been a main stumbling block to a solution.

The US has accepted North Korea's proposal for a package deal and abandoned its step-by-step approach that would have forced Pyongyang to make concessions first. This indicates there "is an improvement in their mutual trust," said Mr Han Sung-joo, the South Korean foreign minister.

The preliminary agreement consists of four main steps:

- North Korea will replace its plutonium-generating gas-cooled graphite reactors with light-water reactors, which are safer, easier to inspect and depend on imported enriched uranium for fuel.

It will halt the construction of two 50MW and 200MW reactors, which would complement its current 5MW reactor. It also promises to forego the reprocessing of spent nuclear fuel into plutonium, and seal its "radiochemical laboratory", which is suspected to be a reprocessing plant.

The US, in turn, will arrange for the supply of light-water reactors, which will be constructed in eight to 10 years and be capable of producing 2,000MW, which will significantly ease North Korea's energy shortage. Financing for the estimated \$2bn-\$4bn project is expected to be provided by Japan, while South Korea wants to supply the nuclear reactors. In the meantime, the US will arrange for interim energy supplies, such as oil shipments, while the light-water reactors are being built.

- The US and North Korea will establish some form of diplomatic representation in each other's capitals, possibly beginning with liaison offices, and reduce barriers to trade and investment, including the possible lifting of the US trade embargo against North Korea.
- The US will offer assurances to North Korea banning the threat or use of nuclear weapons if Pyongyang agrees to implement its 1991 non-nuclear pact with South Korea, which includes mutual nuclear inspections.
- North Korea will remain a party to the nuclear non-proliferation treaty (NPT) and a member of the International Atomic Energy Agency. This would oblige North Korea to accept special inspections of two nuclear waste dumps to determine how much plutonium it has already produced for suspected nuclear weapons.

The demand for special inspections by the IAEA triggered the nuclear dispute in March 1993, with North Korea threatening to withdraw from the NPT.

Negotiations on the technical details of the accord will begin in Geneva on September 23. In the meantime, North Korea has agreed not to reprocess spent nuclear fuel rods recently withdrawn from its reactor.

But the future fate of the fuel rods, with the two sides disagreeing on their disposal, indicates the complexity of the negotiations that lie ahead. North Korea wants to bury them in concrete to prevent radiation leakage, while the US wants to transfer them to a third country, possibly China, for reprocessing to prevent Pyongyang from using them as a possible bargaining chip.

The comprehensive breadth of the agreement, with its provisions interlinked, could slow down future negotiations and any serious disputes could threaten the implementation of the accord.

The issues to be tackled are difficult and their resolution must also be co-ordinated with progress in inter-Korean relations, which recently have hit a rough patch.

But the conclusion of the agreement may put pressure on South Korea to ease its recent propaganda attacks on the North. Seoul cautiously welcomed the agreement, explaining it "made clear the principles to be followed by both sides in their further efforts to find an ultimate solution to the nuclear issue".

Another cause of optimism is that the US-North Korean accord was concluded after only a week of talks, indicating that North Korea's new leadership may be ready to resolve the nuclear dispute in a first step to open the country to foreign investment.

Israel and Palestinians settle customs accord

By Julian Ozanne in Jerusalem

Israel and the Palestinians agreed customs and indirect tax measures yesterday and said they were close to finalising an accord on the next phase of their peace process – transfer of administrative powers from Israeli to Palestinian hands in the occupied West Bank.

The peace moves came as one Israeli was killed and six were hurt in two separate ambushes in the Gaza Strip by gunmen of the Hamas Islamic Resistance movement, which opposes the peace process between Israel and the Palestine Liberation Organisation.

Israeli customs officials said they had completed customs and VAT agreements with the PLO – a critical step in the delayed implementation of the Israeli-PLO economic protocol. The move will ease the financial constraints of the cash-strapped Palestinian treasury.

Next Sunday the Palestinians will establish their own customs and immigration channels at the Rafah and Allenby bridge crossings into Gaza and Jericho removing one of the soorest points of friction between the two sides.

Under the economic accord Israel will collect customs on Palestinian imports through Israeli ports, airports and land terminals and transfer the duties to the Palestinian treasury. Ms Edit Lev, customs spokeswoman, said Israel had paid the Palestinians Shk7m (£1.49m) in customs duties last week and was preparing a further transfer of Shk6.5m in coming days.

Rabin: demanded PLO prove its revenue collection abilities

In future, however, the customs transfer would be made on a day-to-day basis rather than in irregular lump sum payments.

Mr Uri Savir, the head of Israel's foreign ministry, said Israel and the PLO were close to concluding an agreement on "early empowerment" - the transfer of power from Israeli to Palestinian hands over West Bank education, health, social welfare, direct taxation and tourism.

Mr Savir said the only big obstacle left for a flurry of intensive talks starting today at the Israeli-Gaza border was direct taxation of the West Bank's nearly 1m people.

Israel, which will keep troops in the West Bank until the eve of Palestinian elections due in mid-December, fears that the Palestinians will ease tax collection, causing a fall in the level of services and the possible eruption of social discontent.

Mr Oded Eran, a senior foreign ministry official, said Israel and the PLO were making a joint effort to raise money abroad to meet a possible gap in revenue collection. The worst-case being discussed with donors involves providing budgetary assistance of \$9.5m (£6.1m) a month for six months to bridge the expected shortfall.

Outraged PLO officials say Israeli Prime Minister Yitzhak Rabin last week demanded the PLO prove its revenue collection abilities as a pre-condition for early empowerment – a condition not agreed in any accords. The Palestinians dismiss Israeli concerns about tax collection, describing the matter as an "internal Palestinian issue". They are also pressing to levy direct taxation on the up to 120,000 Jewish settlers resident in the West Bank - a move Israel firmly opposes.

Despite the differences substantial progress on early empowerment is expected when Mr Shimon Peres, Israeli foreign minister and Mr Nabil Shaath, senior PLO negotiator, meet in Egypt on Wednesday. At the meeting the PLO will also present its plans for elections and demand that Israeli troops in the West Bank complete redeployment out of Palestinian population centres several months before election day to allow a free election campaign.

Mr Yassir Arafat, PLO Chairman, is expected in Egypt today to brief President Hosni Mubarak ahead of the talks.

Brazil seeks aid for regional integration costs

By Stephen Fidler, Latin America Editor, in São Paulo

The Brazilian government has proposed that new financing should be made available to support regions hurt by the movement toward economic integration in Latin America.

Mr Celso Amorim, foreign minister, said his government had suggested that this and other proposals should be discussed at the summit of American leaders called by US President Bill Clinton to take place in Miami in December.

Mr Amorim told a small group of foreign journalists in Brasília that the proposal was one of several made by Brazil which reflected its hope that the summit "will be more than a media event".

The suggestion was that funds should be made available by the Inter-American Development Bank to support the free trade effort in Latin America. The money should "not only support regional projects such as roads or electricity generation, but also help economic adjustment in areas that are affected by integration". Integration was beneficial, "but there are sectors that suffer in the process," he said.

Brazil has also proposed discussions on trade at the summit "to find a mechanism in which areas heavily protected by the US are open for negotiation". Protection of the US market was high in several sectors important to Brazil. Orange juice carries a specific per litre tariff that works out at 35-40 per cent, which Mr Amorim described as "outrageous", while protection of the footwear industry was another concern.

It was also seeking fuller discussions with the US on its anti-dumping rules "that very often work in ways that we consider arbitrary".

Brasília also backed a Venezuelan proposal to increase international co-operation to tackle corruption in government. Such co-operation should include the ability to gain evidence from examination of bank accounts in other countries to help investigate corruption cases, he said.

Brazil had also proposed funds from the IADB or the Organisation of American States for the creation of a special agency – "a kind of UN Development Programme" – to cover the issue of human rights.

Indonesia spurns US pressure over workers' rights

By Manuela Saragosa in Jakarta

Indonesian police arrested the leader of the country's largest independent trade union at the weekend only days after the US indicated it was likely to delay a decision on whether to continue extending a trade privilege to Jakarta that hinges on workers' rights.

Mr Muchtar Pakpahan, chairman of the independent Indonesian Welfare Labour Union, was arrested in connection with violent labour demonstrations in the North Sumatran town of Medan in April this year.

Police reports said Mr Pakpahan was arrested because he was engaging in "criminal acts which were likely to lure other people into criminality".

The government only recognises the SPSI, a union run by state bureaucrats which tows the government line.

The issue of worker rights has been a thorn in Jakarta's relations with Washington, which had already postponed by six months a decision due last February on the Generalised System of Preferences (GSP). On Tuesday, the US said Indonesia needed to do more, despite recent progress on worker rights but said it would delay a decision on renewing the country's GSP status.

The delay did not come as a surprise to Jakarta. It would have been awkward for Washington to revoke Indonesia's GSP status three months before President Clinton is due in Indonesia for the Asia Pacific Economic Co-operation summit which Indonesia's President Suharto is hosting.

Under GSP, Indonesian manufactured goods are allowed duty-free entry into the US, helping textile and footwear exports in particular. However, the value of exports benefiting from GSP status is small. Last year \$600m worth of Indonesian exports went to the US under GSP, which represented only 16 per cent of total Indonesian exports to the US. Economists say that if Indonesia's GSP status was revoked between \$60m and \$70m worth of trade would be lost.

Dominican Republic to delay poll

The Dominican Republic's National Assembly voted yesterday to delay new presidential elections intended to end the country's three-month leadership crisis, Reuter reports from Santo Domingo.

The assembly voted to hold elections on May 16 1996, rejecting a pact agreed last Wednesday between the Dominican president and the opposition leader to hold the poll on November 16 1995.

Dominican politics have been locked in a crisis since allegations of fraud surfaced during May's presidential elections. Incumbent President Mr Joaquin Balaguer beat his closest competitor, Mr José Francisco Peña Gomez of the Dominican Revolutionary Party (PRD), by about 1 per cent, or 22,000, of votes cast.

Mr Peña Gomez has charged that thousands of PRD members were illicitly denied the ballot.

His charges have been echoed by international election observers who said there was evidence of voting fraud. Dominican authorities agreed, but said they could not determine which party benefited.

INTERNATIONAL PRESS REVIEW

Jungle convention takes centre stage

MEXICO

By Damian Fraser

Zapatista guerrillas parade at the start of last week's convention in Chiapas state Reuter

The most passionately held debate in Mexico's press last week was not, as might have been expected, on next Sunday's presidential election, but on a rebel-organised "convention of democracy", held deep in the jungle in the southern state of Chiapas.

The convention had been called by Subcomandante Marcos, the media-obsessed rebel leader, after he rejected a government offer for peace in Chiapas in June. Despite a lack of accommodation, water and electricity, and a 20-hour bus journey from the nearest town, some 5,000 delegates, accompanied by several hundred journalists, made the trip.

To Mexico's leftist and independent newspapers the convention was one of the year's political highlights, a meeting in which the rebel Zapatista movement's future might be determined. Exercising a freedom that only a few years ago would have been unimaginable, a handful of newspapers devoted dozens of generally favourable articles to the convention.

But to the right-wing, generally pro-government press, the convention either hardly mattered, or was seen as an attempt by a group of armed men to convert themselves into heads of a national revolutionary movement. In this quarter of the press, the meeting was barely reported at all, or stridently denounced.

Proceso, Mexico's main weekly news magazine, led the pro-convention wing of the press, devoting two issues to the event before it began. The first carried a long, fawning interview with Marcos, who is famous enough for the cover photograph to feature just one of his eyes peering through his trademark balaclava. Marcos claimed extravagantly that the convention was the last hope of preventing Mexico slipping into civil war.

Its second convention issue began with Marcos's unsubstantiated claim that the government has sought to buy him off with money.

Desperate not to be outdone, *La Jornada*, a daily read by Mexico City's intellectual élite, sent one of the country's best-known writers, Eliana Poniatowska, to interview Marcos for a three-part series. The paper commissioned opinion pieces for and against the convention for the best part of two weeks.

After the convention finally began, there was nothing to read about for two days. Marcos had imposed a news black-out, supposedly to prevent competition for scoops, but more likely to keep control on what was written. Journalists had to promise not to bring satellite telephones into the jungle, nor to smuggle stories out by messenger.

After the convention ended – a day early because torrential rain destroyed the hand-made convention centre – *La Jornada* and a handful of others reported in voluminous detail the delegates' promise to shut down Mexico if there were fraud in the presidential election, along with Marcos's pledge to submit to the orders of the convention leaders, and not to be the first to take up arms.

La Jornada immediately described the meeting as a great success. In an editorial, entitled "Benefits of the Convention", the newspaper claimed the meeting had a positive response from diverse groups of society. "The Convention was, more than an illegal assembly of guerrillas (as some political leaders, businessmen and citizens pretend to see it), a reunion where the search for political solutions instead of military short cuts prevailed."

Elsewhere the view could hardly have been more different. Marcos had banned several newspapers and both Mexico's main television networks from the convention, and all those not present fiercely attacked the rebel leader for censoring the press.

Even *La Jornada's* correspondent seemed concerned when Marcos turned away the correspondent from *Univision*, the US Spanish-language network, on the grounds that *Univision* was controlled by *Televisa*, the Mexican television station that never puts Marcos on the air.

La Prensa, a best-selling tabloid, attacked the convention through its main columnist, Juán Bustillos. "With zero representativeness, the Zapatista convention was a democratic lie. For groups without national representation to discuss national issues, as if this right belonged only to them, and pretend their conclusions speak for the entire nation is madness or unreal," he concluded.

When the meeting finally ended, Marcos's pledge to submit the Zapatistas to new civilian orders was ridiculed by the editor of *Summa*, a new business daily with close links to *Televisa*. *Summa* had earlier in the year told its readers in an exclusive that Marcos was a former Jesuit priest, who is now suing the newspaper for libel, and has taken it upon itself to lead the anti-Zapatista attack.

"The National Convention of Democracy was a total failure," wrote José Perez Stuart, *Summa's* editor. "Independently of the weather, it collapsed."

Just winning is not good enough, Page 13

Tough start for Ernesto Samper

Sarita Kendall on a week of graft, murder and attacks in Colombia

Colombian President Ernesto Samper's presidency got off to an eventful start. His first week in office included a political assassination, several guerrilla attacks and a police emergency in Cali, where senior officers were sacked or suspended for receiving money from the city's cocaine cartel.

The shooting of Mr Manuel Cepeda – the left wing Patriotic Union party's only senator and a long-time member of the central committee of the Colombian Communist party, sparked rioting, strikes and recriminations. Mr Cepeda had been threatened a number of times and party militants immediately attributed his killing to right-wing paramilitaries. His death is a serious setback to the government's hopes of reviving a dialogue with the guerrillas, not least because Mr Cepeda would have been a channel for reaching the old style communist line Revolutionary Armed Forces of Colombia (FARC).

During his first week, the president also had to contend with a series of corruption scandals among the police force in Cali. The scandals were so extensive that the government called a "disciplinary emergency" and announced the creation of a special counter-intelligence brigade within the police. More than 50 policemen, including 36 officers, were sacked for accepting money from drug traffickers.

In an effort to make some sort of positive mark in his inaugural week, the president announced a series of social and economic measures in line with his campaign promises to increase social investment and speed up devaluation.

Mr Samper launched a \$4.6bn (£3bn) four-year social welfare programme aimed initially at 3m of Colombia's 12m people living in poverty. Most of the money will come from the national budget and foreign loans, but the municipalities will have to provide over a quarter of the funds, a figure which some analysts consider unrealistic even though transfers to local government are increasing.

The two biggest items in the "social welfare network" are food assistance for mothers and small children and housing subsidies for half a million families. The programme also includes employment schemes, training for young people, subsidies for single mothers to ensure their children can go to primary school and welfare provision for the elderly. Some of these schemes are a continuation of programmes begun under the previous government but are geared more specifically to the poorest sectors of the population.

The economic measures include restrictions on private foreign borrowing. Mr Guillermo Perry, finance minister, says the government plans to prevent further revaluation of the peso and wants to maintain a real exchange rate reflecting the difference between internal and external inflation rates. One of the main problems will be to manage steep increase in coffee and oil income – \$1.8bn in coffee earnings is forecast by the end of 1995 and soon after Cusiana oil output is forecast to rise.

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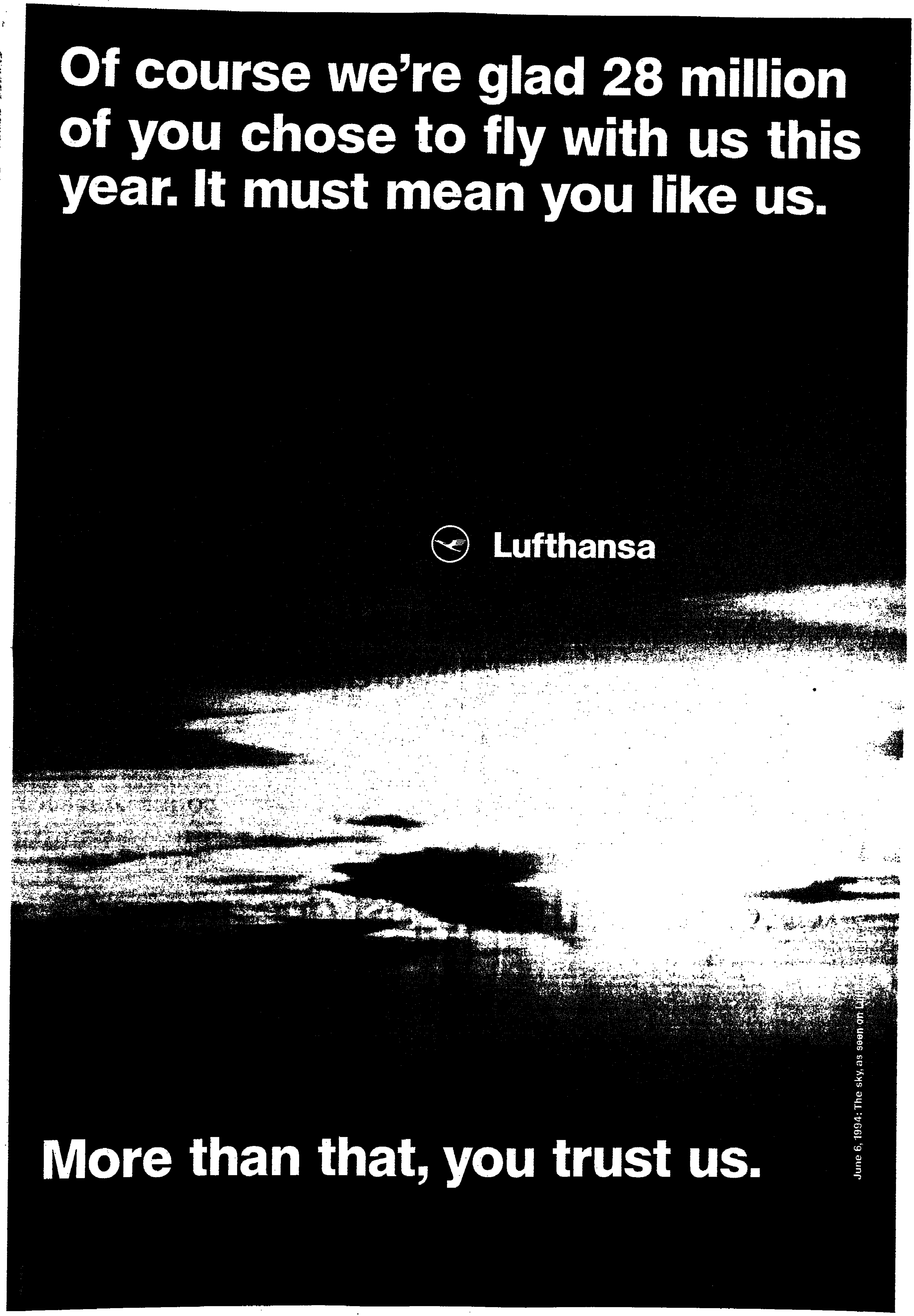


Daily spot market for gas prices proposed

By Deborah Hargreaves

An electricity-type pool for setting daily gas prices could be set up when the UK household supply business is opened to competition in 1996, according to a proposal by Morgan Stanley, the US investment bank.

Ofgas, the industry regulator, is keen to see the development of such a "spot" market for gas sales and is due to issue a consultation paper on the proposals by the end of the month.

"We'd like to see the creation of a daily "spot" market, but if it's to be successful it must be what people want, we can't impose it on the industry," said Mr Mark Higson, director of network operations at Ofgas.

Morgan Stanley's proposal which was formulated jointly with the regional electricity companies: Eastern Electricity and ManWeb, both of which have gas supply arms, would set up a daily commodity market for gas sales and purchases.

Almost half of the gas used in the US is traded on this daily spot basis following the de-regulation of gas distribution over 10 years ago. A natural gas futures contract also trades on the New York Mercantile Exchange.

"There has to be some amount of trading if you want competition to work," said Mr Harry Moulson, head of British Gas's pipelines division, TransCo. British Gas has set up a joint venture trading arm called Accord with Natural Gas Clearing House, the largest independent gas trading company in the US, to act as a broker in any new market.

Independent gas companies already trade small amounts of gas on the telephone, but once the household market is opened up, there will be a need for larger quantities to change hands in a more formal marketplace.

By the end of August, Ofgas will ask gas companies to give their views on Morgan Stanley's market structure and how this would operate with British Gas's suggestions on balancing supply and demand on a daily basis.

The need for a daily spot market arises from the necessity to iron out fluctuations in the amount of gas in the national pipelines network when British Gas's monopoly over domestic supply is removed in April 1996.

If an imbalance is created by rival suppliers putting in too much or too little gas to the national network, households could find they are cut off. In the worst case, an explosion could be caused. Since it is difficult for suppliers to find out whether they are providing an adequate amount of gas to the system each day, British Gas has suggested it makes emergency purchases of gas and later charges those companies which were not balanced. But TransCo does not want to get involved in a wider commodity market.

Morgan Stanley's approach envisages a much wider market structure as an arena where all participants can buy and sell gas at a centrally-cleared price. "The advantage of this system is that it could provide a liquid market with a transparent pricing structure," said Mr Higson.

But some shippers are wary of creating a spot market too soon. "I've no doubt a spot market will develop in time at the physical gas terminals such as St Fergus, in Aberdeenshire, but we don't want to rush it," one supplier said.

Edinburgh poised for profitable festival

By Antony Thorncroft

The Edinburgh International Festival opened last night with a performance at the Usher Hall of Mahler's 8th Symphony by the Royal Scottish National Orchestra, a suitably rousing curtain-raiser to the largest annual cultural gathering in the world.

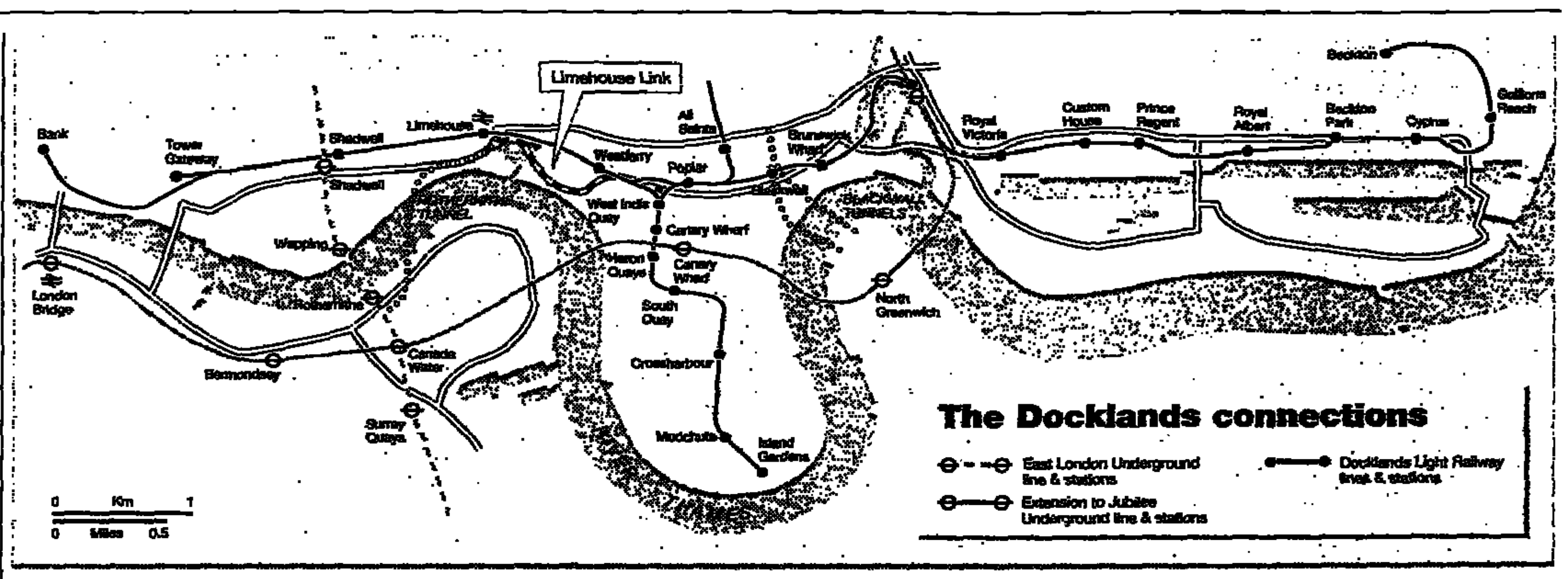
For the next three weeks Edinburgh plays host to four major festivals, plus the popular Military Tattoo. As well as the International Arts Festival, there is the Fringe, the Film Festival, and a Jazz Festival. At the end of the month the television world gathers for its annual conference.

This year's International Festival, directed for the third time by Mr Brian McMasters, promises to be the most successful for many years. The box office has already taken £1.5m towards its £2m target, while the new Festival Theatre will be open for large-scale opera productions.

Among dance troupes in Edinburgh are Miami City Ballet, the Mark Morris Dance Group and Merce Cunningham, while the highlights of an impressive drama programme are the world première of Canadian director Robert Lepage's *The Seven Streams of the River Ota* and the return of German director Peter Stein with a performance in Russian of the *Oresteia* lasting over seven hours.

Last year's Edinburgh Festival made a small profit and with local authorities contributing well over £1m in subsidy and corporate sponsorship almost as much, the 1994 Festival should also end up in the black despite the need to sell 20 per cent more tickets.

The Festival brings over £30m to the Edinburgh economy. Its main competitor for custom is the Fringe, with 9,000 performers from 36 countries, who have scheduled 13,415 performances of 1,275 shows at 184 venues, including church halls, a delicatessen, a swimming pool, and a bus running around Edinburgh.



Clouds clearing over Docklands property

What have Texaco, the oil company, Thalgo, a beauty products maker, the European Agency for the Evaluation of Medicinal Products and an unamed Hong Kong purchaser of 25 Barratt homes got in common?

The answer is that all four have decided in the past 18 months to occupy commercial premises or invest in London's former docklands. After more than four years of harsh recession, spring suddenly has re-emerged in one of Britain's hardest hit property markets.

According to the London Docklands Development Corporation, 800,000 sq ft of offices was let during the 12 months to the end of March, the largest annual total since 1987 and 50 per cent more than the previous two years combined. Since January, 500,000 sq ft has been let and there are firm inquiries for another 1m sq ft. Mr Mike Bignell, head of property development at the corporation says: "At this rate commercial lettings should top 1m sq ft this [financial] year for the first time in Docklands' history."

House sales and prices also have picked up. Barratt says it is selling homes faster than it can complete them at its riverside Sovereign View housing development next to the former Surrey Docks, where three quarters of the 300 homes planned have been sold. Twenty five went to a single Hong Kong investor earlier this year.

Land prices are still about fifth below their late 1980s peak but demand for dockland property is rising, particularly from Far Eastern investors. House prices which generally had fallen by 35-40 per cent from their peak are estimated by the corporation to have risen by about 15 per cent since Autumn 1992.

It says builders sold 700 new private sector homes during the first six months of this year leaving just 31 new units unoccupied, compared with an unsold stock of 1,500 new homes in 1988-89.

The stock of unoccupied offices will take much longer to disappear. The corporation estimated that there was there was about 5m sq ft of empty commercial space, representing a vacancy rate of 39 per cent, at the end of last month.

Four fifths of this empty space is on the Isle of Dogs, home of the massive Canary Wharf development which came out of receivership last year and is now owned by a group of ten bankers.

Lettings, nonetheless, have increased sharply with Canary Wharf now more than 50 per cent let to tenants such as the European Agency for the Evaluation of Medicinal Products, London Underground, Mirror Group Newspapers, Credit Suisse First Boston and Texaco.

Texaco moved last year from its former headquarters in Knightsbridge in London's West End, where its lease had run out, to a new 250,000 sq ft air conditioned building at Canary Wharf.

Texaco has hired a hovercraft to shuttle staff at peak travel times along the River Thames from Charing Cross pier to Canary Wharf – a journey of about nine minutes.

A more recent arrival is Thalgo Cosmetic, the UK subsidiary of a French beauty and health products group, which three weeks ago moved into offices at Millharbour.

Initial rents range from about £6.50 to £25 a sq ft with an average of about £10 says the corporation. A better guide to the improvement in the market is a reduction in sales incentives with rent free periods offered by developers falling from three to four years to about a year to 18 months.

Andrew Taylor

Britain in brief

Talks with US health group rapped

The government's health plans yesterday came under renewed attack after Mr Tom Sackville, the UK health minister, said he had held discussions with a US healthcare group on the provision of services to the National Health Service.

The Labour party accused the government of attempting to sell-off the NHS to companies "seeking to escape [US president] Bill Clinton's efforts at cost-cutting". Conservative backbench MPs also expressed deep unease at the unpopular decisions which the government may be forced to take by rising health costs.

Mr Sackville said he had held discussions in June with Salick Healthcare, which was "one of a number of American companies who are trying to gain a foothold in the UK".

However, he insisted that he had told the company, which specialises in diagnostic and therapeutic services for patients suffering from cancer and kidney failure, that his department was "neutral" in any decisions taken by NHS trusts or fund-holding general practitioners to buy services from external sources. He said he merely encouraged the health service to co-operate with the private sector.

The Department of Health denied any health service hospitals had been put on sale. It said: "The NHS is not for sale, and neither are any NHS hospitals."

Mr David Blunkett, Labour's health spokesman, said the US companies were "seeking to soak the British taxpayer with the aid and approval of government ministers".

Exports 'set for strong growth'

Britain's exports are set for strong growth as the rest of Europe moves into economic recovery, according to two reports published today.

The Lloyds Bank Quarterly Economic Bulletin says falling relative labour costs mean UK companies are well placed to take advantage of stronger European Union markets.

Mr Trevor Williams, Lloyds' senior economist, says: "Prospects for UK export growth seem to be the best for a decade.

"Relative unit labour costs improved by about 15 per cent in 1993, a much better gain than for the 1980s. After jumping 10 per cent last year, export price growth is expected to be barely positive in the next two years, helped by low domestic inflation."

This optimism is shared by Professor Douglas McWilliams in the quarterly economic report of the Chartered Institute of Marketing.

He says: "Surveys show a powerful growth in export orders and it would be reasonable to expect continued sales growth as the world's economic revival spreads."

Crack found in Concorde wing

Hairline cracks have been found in the wings of seven British Airways Concordes, the company has confirmed. "We have repaired two of them and are working to repair the others one by one," it said.

The Civil Aviation Authority said it had allowed the Concordes yet to be repaired to remain in service on the basis that they are checked after every 10 flights.

The hairlines are not in a high-tension area or one that has anything that has a bearing on safety, it said.

The cracks were found during a routine inspection in May and other aircraft were then brought in for inspection.

Scots rail crash probed

Accident investigators spent the weekend at the scene of Saturday night's rail crash near Edinburgh in which 59 people were injured.

The crash happened when a driverless 100-tonne locomotive rolled out of the city's Waverley Station for a mile before colliding with the Newquay-Edinburgh InterCity train at Abbeyhill, a mile east of Edinburgh.

Cable network may hand government a £1bn windfall

Ninety per cent of UK homes could hook up in the next decade, writes Andrew Adonis

A new wave of cable construction over the next decade is likely to make cable services available to nine in ten British households and could net the government more than £1bn, according to the Cable Television Association.

The association, which represents the mainly US-owned companies building cable television and telephone networks, believes up to 100 new licences are likely to be granted over the next three years, as cable companies seek to extend their networks to smaller towns and rural areas.

Existing cable licences cover about 14.5m homes, about 70 per cent of the UK total, although fewer than 1m homes have been connected. Cable operators are projected to spend more than £5bn over the next five years constructing networks in the 130 areas already franchised.

Mr Richard Woollam, director general of the Cable Television Association, said: "There is strong interest among operators in extending their networks, perhaps by using radio technology to provide connections in less populous areas."

He said this could lead to the granting of franchises covering up to 4m additional homes, putting cable within reach of about 90 per cent of the UK's population.

Licences to build cable systems are granted by the Independent Television Commission under the 1990 Broadcasting Act. It awards them for areas of up to about 500,000 people after an auction. The proceeds go to the government.

The most recent licence to be awarded, covering west Kent, went to Eurobell, a cable operator with franchises in the Crawley area of West Sussex and in Devon. Eurobell will pay £1.6m upfront, then 2 per cent of television revenues after five years of operation.

The west Kent franchise – a mix of urban, semi-rural and rural communities – is typical of future franchise areas. More than two-thirds of its 100,000 residents live in Tunbridge Wells and Sevenoaks and their immediate surroundings. Eurobell plans to build wire-based networks in those towns, but will pioneer radio technology for the rest of the area.

The ITC has three licence applications pending – the Blackpool area, south-east Anglia, and parts of Derbyshire.

A US regional telecoms operator with extensive UK cable interests is believed to have bid £800,000 for the Blackpool franchise.

The ITC said it anticipated an increase in demand for cable licences for areas not already franchised. The largest franchises expected is for Belfast, which could cover up to 500,000 homes if extended to the whole of Northern Ireland.

A recent Commons trade and industry committee report on "superhighways" called for areas not yet franchised to be offered to operators by the end of next year. That target is widely regarded as over-ambitious, but pressure on the ITC to ensure that most of the UK has an operator able to offer cable services is likely to grow.

According to the FT's media markets newsletter, the ITC has rejected a proposal by Mercury, the main competitor to BT, which would have allowed the telecoms operator to build a television microwave system across those parts of the UK not already covered by cable franchises.

MANAGEMENT

Taiwan's ancient sport has acquired a special dimension for civil engineering, writes **Richard Donkin**

Dragon boats in contract race

The sculpted ice model of a dragon-shaped boat dripped water from its nostrils under the heat of spotlights at the Taipei Bankers Club.

The occasion was a reception held by Nuclear Electric, the UK's state-owned nuclear power company, which had gathered its team of local contractors for a progress report on what may be one of Britain's most lucrative civil engineering exports – the construction of a £1.4bn nuclear power station in Taiwan.

The reception and the model had been arranged around the Nuclear Electric team's visit to compete in Taiwan's annual dragon boat races a few weeks ago.

The roots of this sport, in which large canoe-like boats sprint frantically against each other over a few hundred metres, go back to ancient China. Today it is part of the sporting calendar in Taiwan, China and Hong Kong. In India and Bangladesh, the vessels are called peacock boats, in Japan perion boats.

Since the annual Hong Kong dragon boat festival introduced international races in 1976, corporate teams and rowing clubs have developed the sport across the globe; it is proving increasingly popular because of its team-building qualities and scope for sponsorship.

Nuclear Electric has advanced the concept, using its dragon boat team as ambassadors for the company, both in the field of nuclear politics and in the more subtle art of securing business in East Asia.

It was no coincidence that the dragon boat was in Taipei at the same time that Taipower, the potential customer, was considering sealed bids for the Lungmen Island nuclear power plant project at Yenliao, 40 miles north of Taipei.

The British company crew could not directly influence the bid – one of three submitted by worldwide consortia – but the feeling was that by demonstrating its interest in Taiwanese sport, Nuclear Electric was helping to make its presence felt more acutely in a difficult market for British companies.

The impact of dragon boat racing in East Asia should not be underestimated. According to figures supplied by the British Dragon Boat Racing Association, the sport has grown so large in China that 20m Chinese now compete. Grandstands and a four-star hotel are being constructed at Yueyang, in Hunan, the spiritual home of the sport and the site of its first official world championships in June next year.

In the contract bidding, one of Nuclear Electric's problems has been that nominally it is merely the principal sub-contractor in a bid headed by Westinghouse, the US conglomerate. According to executives, Taipower was against the submission of joint bids.

So the challenge has been to ensure that the Taiwanese are fully aware of its contribution to what it considers is as much a European as a US bid, while not disturbing its relationship with Westinghouse or its growing understanding with Taipower. Rival consortia are led by Combustion Engineering, a US subsidiary of ABB, the Swiss-Swedish engineering group, and Framatome, of France.

Guy Stanton, a commercial services executive and, until a few weeks ago, Nuclear Electric's only representative in Taiwan, is the man charged with leading the delicate negotiations.

"My role has been to raise the profile of Nuclear Electric in a country that had neither heard of the company nor of Sizewell B, the pressure water reactor that we designed [in the UK] and which forms the basis of this bid," he explains.

"In Taiwanese eyes, we are a contractor, but it's critical that we have a presence since it's our design that we are selling, and we have as big an interest as Westinghouse in the project."

While local contractors would be involved in much of the construction, the deal, to build a power plant that, like Sizewell C, is double the capacity of Sizewell B, would be worth £700m and 5,000 jobs for UK exporters, almost equal to the whole of UK exports to the country in 1993.

But the British company is up against a French design, older but almost certainly cheaper, and a US bid which is state of the art. In commercial terms, the biggest obstacle may prove to be price, even allowing for the series of industrial incentives for Taiwan built into the Westinghouse/Nuclear Electric proposal.

Politics is also bound to play a part, however, since none of the nations bidding for contracts officially recognises Taiwan. Each treads a diplomatic tightrope.

Philip Morrice, director of the British Trade and Cultural Office, which has a significant but discreet Foreign Office involvement, is the nearest the UK has to an ambassador in Taipei. He has only now succeeded in calming tensions caused by political reservations and adverse UK press reactions to the £157m Hualon textile group investment in Northern Ireland, supported by a £61m grant from the UK public purse.

One of his chief roles is to promote the Westinghouse-Nuclear Electric power station bid. One way to do so is to highlight the difficulties that have emerged in Taiwan's biggest transport project, the French-built Mass Rapid Transit System, still unfinished after problems with an untried rail car. "It's the most expensive transport system in the world, with no passengers as yet," he says disparagingly.

The hope of the US-British team is that this will work to Westinghouse-Nuclear Electric's advantage when the bidders stress the merits of what they claim is a "proven" power station design.

Perhaps the most complex area of all in a project of this size in Taiwan is assessing the importance of *guanxi*, roughly translated as "connections".

"You cannot overestimate the significance of the political massaging that goes on," says one British businessman with years of experience in the island.

In a country where the politics are anathema to the British way of business, that may prove too great an obstacle. "They tend to want visits by royalty and recognition; the sort of things that, because of the political situation, we cannot provide," says one observer.

Nor can business visitors avoid the political inertia that has developed since the end of martial law in 1987. Getting things done is proving more difficult.

The ruling Kuomintang, the business elite that comprises 15 per cent of the population, is said to be investing heavily in other parts of East Asia, particularly Indonesia and Vietnam.

Some observers see this, rather like the investment policies of Kuwait, as a kind of insurance, establishing Kuomintang mobility. It is also developing a significant presence in Shanghai, dreaming perhaps of one day returning to the mainland.

Such dreams are not only fostered by ambition, but also by fear. Some believe that, after Hong Kong and Macau have been reclaimed by the People's Republic of China, the latter will turn its attentions to Taiwan.

Since the emergence of an official opposition to the government, some Kuomintang are glancing nervously over their shoulders at the 85 per cent native Taiwanese majority, once cowed by the massacres perpetrated by Chiang Kai-shek in 1947, but increasing in confidence today.

In the midst of this political climate – the freer society has also led to western-style anti-nuclear protests – the public relations value to Nuclear Electric of spending £40,000 to send a 21-strong dragon boat team to Taiwan is hard to gauge.

The event was certainly covered in newspapers and on television, which will have taken the company's name into Taiwanese homes – especially since the boat came fifth out of a field of more than 50.

The crew is philosophical about its impact on the power station bidding. Most of its members would agree with the sentiments of Morrice, who said he could not put his hand on his heart and declare that the Hartlepool crew would win the contract for Nuclear Electric. But, as he said: "It's a nice gesture and certainly does no harm."

An arena for identifying team leaders

Dragon boat racing is more than merely an East Asian promotional tool for Nuclear Electric.

The crew's success has helped maintain morale in a company engaged in the painful transition from the public to the private sector, while the sport provides an opportunity for management to spot potential leaders.

Take Dave Price, the crew's captain, who is part of a change support team which has been established to introduce new working practices at the company's Hartlepool plant.

Chosen partly for his organisational abilities that emerged in the way he ran a company football team, and most recently the dragon boat, he said: "The management wanted people who were good at pulling teams together."

Bill Shirra, formerly the Hartlepool plant's human resources manager and now the company's career development manager at its Gloucester headquarters, emphasises the team-building benefits of the sport.

"There was a time when people were expected to hang up their brains as they walked through the door. That's all changed now. People are expected to think about their jobs and take decisions for themselves."

The foreman's job has been changed to that of team leader and the teams are expected to be more self sufficient in areas such as budgets and personnel decisions. Part of the changes, he said, had been to introduce skills broadening, which entails training people to do 10 per cent of someone else's. "The idea, in its simplest terms, is that you should no longer need to get an electrician to put a plug on," he said.

DESERT ISLAND MANAGER

Nick Temple

Nick Temple, 46, chairman of International Business Machines (UK) was its chief executive from early 1992 until the middle of this year. It was the computer giant's most troubled subsidiary. Temple lived up to his reputation as a no-nonsense bruiser with a precision intellect, and turned the company around. Rewarded with a bigger job – European general manager for the finance industry – he thinks he would welcome a spell off the treadmill.

You are allowed one piece of equipment.
I would take my notebook computer. I use it all the time to write up notes, briefings and ideas I have while I'm flying across the Atlantic on business trips. It's also got games on it, like chess and backgammon, so that even if I was on my own, I would be able to play.

How would you take to a solitary life?
I don't think I'd enjoy being on a desert island. I'm very much a social animal and I like people around me.

What would you miss most?
I love the telephone. It keeps me in touch with what everyone else is doing, and I can talk to people wherever and whenever. My mother – she's 90 - can't quite grasp the idea that I don't have to be at a particular place to phone me, but she's getting used to the idea.

And least?
I'd miss the television least. I rarely watch it. It just blasts away, and I usually switch it off.

Could you operate as a long-distance manager?
I wouldn't find it difficult to manage my business remotely. I would delegate to people I can trust. I have learnt the value of having people around who I can rely on and who intuitively know what I would do in a given situation.

You can take one film.
I'd like *Hopscotch*, a thriller-comedy starring Walter Matthau. I'm a great fan of Matthau's and I enjoy a film with a few surprises that makes me laugh. I like *A Fish Called Wanda* for the same reasons.

And one book.
I'd take *Mad White Giant* by the explorer and adventurer Benedict Allen. I heard him speak at IBM's business convention in France last year, and have great admiration for his courage. He is totally unconventional and an entertaining speaker.

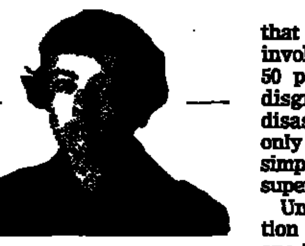
What would you eat and drink?
I'd eat fish, which I assume I'd have to catch myself. As I'm not terribly good at fishing, perhaps I'd be allowed a stick of dynamite or two. I'd drink Borgogne – it's light, fruity and adaptable for all sorts of meals and would be just right for the turbot I'd like to catch. A lot of my best ideas are the result of a glass or two of Borgogne.

Alas, no rescue in sight. What would be your epitaph?
I'd like to be remembered as a man who made things happen, who took little notice of red tape and who brought enthusiasm and excitement into work. I'd like to think I'd never be remembered as being boring.

Alan Cane

Lemmings leap to adopt 'just in time'

LUCY KELLAWAY



The pattern is always the same. Somebody comes up with a management idea. A few companies try it out, and great claims are made for it. Packed conferences are held and consultancies multiply and prosper. More companies follow until everyone is doing it and swearing by it. Then some clever dick does research showing this marvellous practice is not delivering the goods. The believers behave as if an act of sacrilege has been committed, yet the fall from grace has begun. A new idea soon comes along to renew the process.

We saw it with total quality management. Now we are seeing it with Japanese lean production techniques such as "just in time".

Last week academics at Cambridge University published a shock-horror study suggesting that lean production can damage a company's financial health. Now Britain's JIT fanatics are all angrily defending themselves.

The cycles are inevitable because companies behave like lemmings. Each new idea – TQM, JIT and all the rest – has some intrinsic worth. Yet managers apply these systems willy nilly to their operations, urged on by their peers and by greedy consultants.

To judge by the JIT cycle, about four years is par for the course between mass adoption and doubts setting in. In another year or so, re-engineering and benchmarking – which all but the very smartest and the very dumbest companies now espouse – will take their turn.

Looking through the papers for bargain flights, my eye was caught by some remarkably cheap deals: Hong Kong for only £250, Panama for only £265. On closer inspection I found I was looking at offshore company bucket shops noisily comparing prices for buying companies in tax-free paradise.

Curious, I sent off for the details and received what looked like holiday brochures, full of photos of traditional Chinese junks, the Rock of Gibraltar and – less enticing – of Belize's Philip SW Goldston airport.

As there is no question of the clients actually visiting any of these places, it is hard to see why the companies bother with pictures. For about £500 a year, the offshore specialists will supply names of directors, phone numbers, addresses and anything else to create the veneer of a company that doesn't exist.

What surprised me about the brochures is how simple the business of tax avoidance is. All you need is to fill in a form (slightly shorter than the one I have just completed to join my local library), choose a country, pick a company from off the shelf, supply your credit card number and you are ready to go. It easier than booking a holiday – and marginally cheaper, too.

What does it mean for a company to have a woman on its board? Does it mean it is a forward-looking non-discriminatory employer? Possibly. More certainly it means the company is statistically less likely to go bust than those where the board is entirely male.

CCN Business Information, the credit analysis company, has found that women are more unlikely to be involved in companies that fail and 50 per cent less likely to have a disgraceful string of corporate disasters behind them. That was only as I had suspected: women are simply the more honest and have superior judgment, too.

Unfortunately, the real explanation seems to be otherwise. Nearly one third of the 1m directors of British companies are women, but most of these are the wives of men who have started their own business. Usually a second mortgage on the house is part of the package, and these sorts of family businesses are usually not those that are going to be involved in the latest fraudulent scam.

A few months ago my one-year-old daughter received a letter claiming that a fine collection of books could be hers. All she need do was send a book to the child named in the letter, copy the letter and send it on to six of her friends. In due course she would be sent six lovely packages containing books.

I was reminded of this letter as I read about the pyramid schemes that have been causing investors so much grief from Russia to Japan to the UK.

The popular belief is that the poor suckers involved are either new to capitalism or pathetically naive.

My daughter's chain letter suggests otherwise. It came from a financially sophisticated acquaintance who has enough money to buy her son a whole library of books.

She knew, and the parents of all the recipients would have known, that chain letters and pyramid schemes are a con. Yet she was prepared to excuse herself with a lot of middle-class claptrap about promoting reading. The idea of something for nothing seems to be deeply rooted, and people who should know better are not only espousing it but passing it on to their children.

BUSINESS TRAVEL

Dutch airport grows

Schiphol Airport, already one of Europe's busiest, has opened a new wing to accommodate growing numbers of regional travellers.

B-Pier has four terminal gates for European destinations, passenger waiting areas and the airport's security department.

Besides its international flights, the airport is the gateway to 50 European destinations through 16 regional airlines.

Third time unlucky

An Air India flight attendant has been sacked for giving birth to a third child in contravention of the national carrier's rules, the airline said yesterday.

Audrey Coutinho, 34, said she would file a suit against the airline challenging the dismissal.

A flight attendant who gives birth to a third child must resign under the airline's rules. This is thought to be the first time the regulation has been implemented.

Georgian train crash

At least 15 people were killed and 30 injured when a passenger train crashed into a stationary freight train just outside the Georgian capital, Tbilisi, after a signalling error, railway officials said yesterday.

Gugufy Mayduradze, deputy director of the Georgian railways, said the likely cause of the accident was a mistake by station staff who failed to check whether the track was free before allowing the passenger train to proceed.

Flights to Rwanda

Sabena, the Belgian airline, is to resume commercial flights to Rwanda on September 2.

Initially there will be one flight weekly to the capital, Kigali, leaving Brussels on Friday evenings and returning from Kigali on Saturday mornings.

Air Maroc strike

Royal Air Maroc services have been badly disrupted by a strike over the sacking of a pilot. The strike by air crews entered its fifth day on Saturday, according to the air crew union, the AMPT.

There have been no negotiations with the airline, according to the union.

Israel to Nigeria

Israel's national airline, El Al, will commence direct flights to Nigeria in the next two weeks.

The two countries re-established diplomatic relations about three years ago after a 19-year break.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	32	33	34	32	31
Hong Kong	30	29	30	29	29
London	23	23	20	21	21
Frankfurt	23	27	24	22	24
New York	26	24	27	29	30
L. Angeles	34	36	32	28	25
Milan	30	30	32	28	28
Paris	23	26	22	22	21
Zurich	22	25	21	20	22

Maximum temperatures in Celsius
Information supplied by Meteo Consult of the Netherlands

Laurie Morse on a type of US hotel that offers more space

Suite-talking the guests

Travellers to the US who need their hotel rooms to double as offices or showrooms, but who do not want to pay an excessive price for the privilege, are increasingly checking into all-suite hotels.

Launched in the US 10 years ago, these hotels typically offer a sitting room as well as a bedroom, and usually include full breakfast in the price. The price of a suite is generally only slightly above that of standard rooms in comparable hotels in the same neighbourhood.

Average daily rates for a suite in an upmarket hotel were about $97 in the first quarter of this year, according to Ernst & Young, the consultancy. For an extended stay, the average rate falls to about $75 a day.

"Suites give travellers a bigger space for about the same price," says Mr Steve Porter, marketing manager for Promus Corp's Embassy Suites, the largest all-suite hotel chain in the US. Not only are the rooms larger, the hotels are generally smaller, and built around a courtyard or atrium to give guests a more relaxed, residential atmosphere, Mr Porter says.

There are 16 major all-suite hotel chains in the US, many of them operated by well-known hoteliers, such as Marriott, Promus Corp and Radisson. While US hotel construction has stagnated recently for lack of financing, all-suite properties are expanding, particularly hotels catering to the needs of travellers who stay four nights or more.

These hotels often offer laundry and shopping services, and suites are equipped with small but functional kitchens. At the best chains, a guest enjoys the equivalent of a well-equipped, one-bedroom apartment for less than $100 a night.

Marriott operates Residence Inns, the largest and most successful extended-stay chain in the US. Homewood Suites, run by Promus Corp, won top billing for overall customer satisfaction in a recent all-suites hotel survey by Consumer Reports Magazine.

Experienced travellers say that, in addition to more space and a convenient breakfast, the all-suites hotels have two other winning features: location and consistently good quality. Because they tend to be newer properties, they are usually in better shape and have more modern equipment than older, full-service hotels.

Built with business travellers in mind, all-suite properties are usually located in suburban areas near interstate highways or big airports.

Flights to the land of Nod

Kate Bevan on rival airlines' sleeper services

It almost seems a shame to go to sleep if your company has forked out for you to fly first class. There are fine wines, good food and all the latest movies to be sampled.

But many people find the best preparation for a business trip is a good sleep on the aircraft – so British Airways and Virgin Atlantic have launched rival sleeper services.

British Airways began what it calls its "dream service" for first-class passengers on some overnight flights last year. It has since expanded the service to the Middle East and some destinations in Africa, as well as transatlantic routes from the US east coast and Toronto, Canada.

Virgin Atlantic launched its "Snoozzone" on flights from the US and to Hong Kong and Tokyo from London.

The two services are similar in concept. On some flights passengers have a choice of a meal at the airport – the best are in New York – or a light meal on the flight. Once on board, passengers are given a cotton tracksuit and the seats are made up into the closest thing to a bed the airlines can manage, with a duvet and pillow. BA's final touch is a mug of hot chocolate and cookies before all the cabin lights are turned out.

The main difference is in price. The British Airways one-way fare of £1,974 from New York's John F Kennedy airport to London compares with Virgin's one-way weekday fare of £1,082 from New York. Virgin's price is lower mainly because it has done away with the first-class/business-class distinction in favour of what it calls Upper Class.

BA's first-class cabin is smaller and quieter than Virgin's. BA sleeps 16 in first class on a 747 and 10 in a 767, while Virgin has 28 Upper Class seats on A340 aircraft and 30 on its 747 fleet. On Virgin, dinner carts serving non-snoozing passengers may clatter around for a while after take-off.

Cathay Pacific, the Hong Kong carrier, also offers a sleeper service in business class three times a week. After a meal before take-off, passengers are given a kimono-style dressing gown, blankets and pillows. Cathay tries to split those who opt for full service from those who want to sleep.

Even people who find it difficult to sleep in aircraft should manage a bit more than 40 winks on such sleeper flights. The only thing missing, as one passenger said on a flight from Washington DC to London, is a teddy bear.

The big sleep: a passenger slumbers after being tucked into his seat in Virgin's 'Snoozzone'

Cancellations at Glasgow

There has been bad news for users of transatlantic air services from Scotland in the past few weeks. First, American Airlines announced that its daily service from Glasgow to Chicago would in future only operate in the summer. Flights would finish this year on November 2.

Next, Northwest Airlines said it was ending its daily Glasgow-Boston service altogether on October 25, after flying from Scotland for 14 years.

These decisions reverse the gradual expansion of transatlantic services from Glasgow that began in 1990, when the government stopped forcing intercontinental flights to use Prestwick airport, 30 miles south-east of Glasgow. At that time, American Airlines and British Airways, which had refused to use Prestwick, launched services from Glasgow, with American flying daily to Chicago and BA three times a week to New York. Northwest and Air Canada moved to Glasgow from Prestwick, and last year United Airlines began flying daily from Washington DC.

Aviation specialists believe the latest decisions to cancel flights reflect airlines' determination to improve returns on their assets rather than seek market share. American Airlines complained that, while summer holiday traffic was good, there were not enough year-round business travellers to give a satisfactory yield per seat and make the service profitable overall.

Northwest also blamed low yields, and claimed there was excess capacity on transatlantic routes from Glasgow.

One difficulty is that business or first-class passengers do not necessarily want to fly from their local airport. The convenience is offset by the fact that there are a much greater number of transatlantic services from London's Heathrow and Gatwick airports, giving passengers a range of options in case of delay or cancellation. And many of these flights go direct to the traveller's ultimate North American destination.

Mr Bob Buntin, Northwest's general manager for Scotland, says that its Glasgow flights have had good capacity utilisation, but claims this is only because fares are low. "We have been trapped for some time at the low end of the market," he says.

BAA, which runs Glasgow airport, hopes to persuade the remaining year-round transatlantic carriers, United, Air Canada and British Airways, to increase their services to take up any slack. British Airways says it will increase its frequency to New York from four flights a week to five, probably from January.

James Buxton

MEDIA FUTURES

Banking on the multi-class of 94

Victoria Griffith explains why companies are making an interactive push into US classrooms

US elementary and high schools are turning into key testing grounds for multimedia products, as companies woo the young people they believe will one day be their most important customers.

"The eight-year-olds of today are our future market," says George Schlukbier, director of new media for the News & Observer Publishing Company, which runs an on-line service to schools in North Carolina. "The information highway will come into full force a decade from now, when those eight-year-olds will be entering the consumer market."

Examples of this trend are many. Nynex, the telecommunications company, offers an interactive voice and video hook-up which allows students to take classes with a teacher in another school. Via computer, students in various locations can be called on to answer questions. AT&T is connecting high schools with colleges interactively.

The publishing industry is also throwing its weight into the classroom. For instance, Primis, a subsidiary of McGraw-Hill, is making custom-designed textbooks via high-speed printing. Voyager has put out CD-Rom versions of Shakespeare's Macbeth and other books, complete with text, video, and annotations.

The media sector has also been especially active in the schools. Whittle Communications runs a computer-linked cable news network to schools in the US and hopes to move into the UK market soon. Newspapers like the San Jose Mercury News, the Chicago Tribune, and the New & Observer Company, which publishes the Raleigh News & Observer, all run on-line services to schools. Meanwhile, Reuters, the UK-based wire service, has just launched Ingenius, a joint venture with Liberty Media Corp, to provide a multimedia smorgasbord of voice overs, photographs, videos, articles and interactive lesson plans.

Today's adults, many believe, are too set in their ways to become major consumers of high-technology multimedia products. "Older people will probably stick to traditional sources like newspapers and nightly news broadcasts for information, although they may dabble in multimedia," says Lewis Friedland, professor in journalism at the University of Wisconsin, Madison. "The market will be shaped by the kids who grow up using this stuff."

Linking up with schools to ensure a future customer base is not a new idea. Apple Computer used the same strategy two decades ago when it handed out thousands of computers to classrooms around the US.

Results, however, were mixed. Young adults today are far more computer-literate than their elders, but that is probably more due to contact they had with computers at home and work than at school. In many cases, the computers Apple provided sat idle for years as teachers tried to figure out how to use them, and how to incorporate them into their curriculum.

"We won't have that problem, because programmes are getting easier to use," says Gerald Bennington, chief executive officer of Ingenius. Yet teacher training remains a concern, and Ingenius has established a training programme in Denver to encourage use of its product.

Ironically, the free Apples which brought schools into the computer age may now slow the growth of multimedia in the classrooms. Most of the computers in schools today are too basic, for instance, to run sophisticated on-line programmes. "Most schools are pretty out-dated," says Schlukbier. "Some don't even include the Vietnam war in their textbooks. You have to work with what you have, but it means we can't provide much in the way of CD-Rom film for the computer and other new technologies."

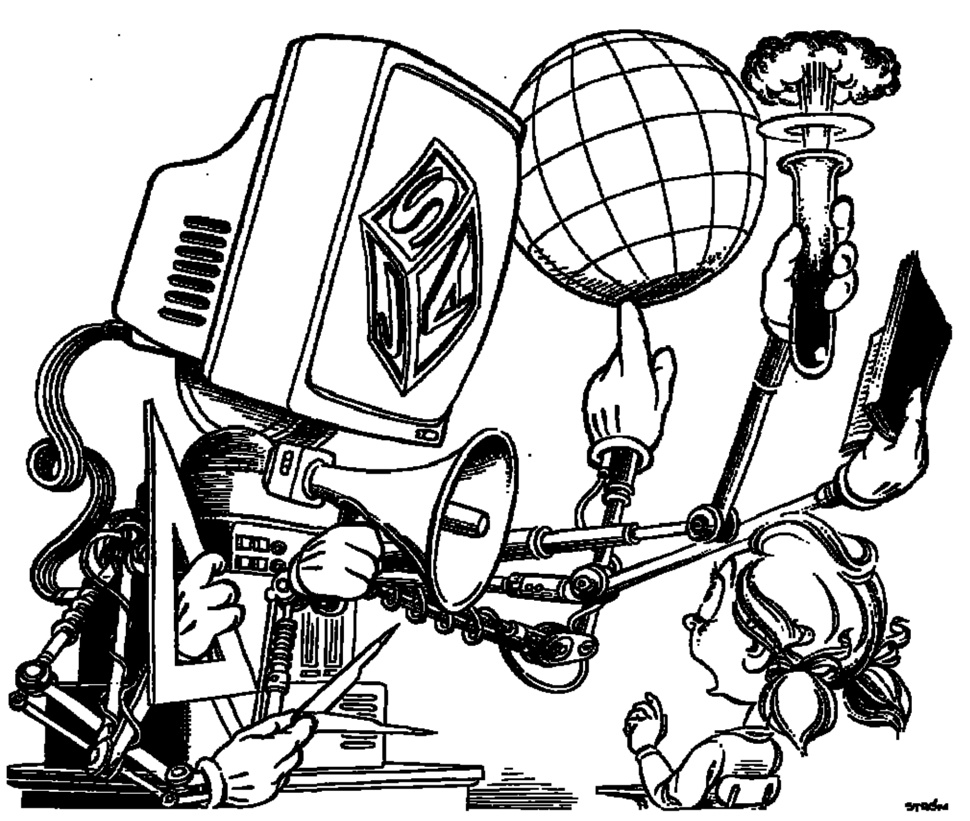
Companies are also struggling with pricing issues. The News & Observer, for instance, provides services at no charge in the hope of a long-term payoff. Whittle's Channel One is also free, but runs commercials on its network to garner revenues. Nynex and Reuters, on the other hand, believe schools will pay for a high-quality product. "It's a myth that they schools don't have any money," says Bennington of Ingenius. "It's one of the biggest budget items in any state in the country."

Once they get access to the classroom, multimedia news providers have to grapple with the challenge of how to present violent stories to children. "I think the trick is to present a story like O.J. Simpson (in which the ex-football star is accused of murdering his ex-wife and her friend) in a straightforward, non-sensationalist manner, then tie it to real life through a discussion of domestic violence or learning activities, such as the study of the US judicial system," says Katherine King, editor-in-chief of Ingenius.

Multimedia companies may also face opposition from educators who doubt the value of the products. "The studies we've done show that children don't learn any more when they're connected to computers and multimedia products than they do through traditional methods," says Alex Molnar, professor of education at the University of Wisconsin, Milwaukee. "There's also the question of how to pay for it. US schools don't have lots of money, and if they pay for these products, they have to cut down in other areas. And if it's for free, like Channel One, but kids are subjected to advertisements, that raises all sorts of questions about commercialising our classrooms."

Despite the challenges, companies believe that a presence in the schools today is essential to tap the future multimedia market.

For that reason, US classrooms are turning into one of the most important laboratories for the industry.



Indonesia's fixed cellular revolution

By Andrew Adonis

A revolution waiting to happen in the telecommunications industry is the development of radio-based local networks able fully to replace the fixed wire. When it happens, the cost of building and maintaining local connections could plummet, with incalculable consequences for competition and the extension of telecoms in developing countries.

Like many revolutions, it is unlikely to happen overnight. Radio technology is already integral to telecoms, notably in cellular mobile telephony. Imminent is the development of local radio networks for "fixed" telephones, which are price competitive with existing wireline networks.

In the developed world, such networks are likely to be feature mainly in niche markets. Telia, Sweden's state telecoms company, already provides many of its remote rural subscribers with cellular phones instead of "wireline" connections. Ionica, a private UK operator, plans to launch a nationwide service next year to closely targetted markets.

Indonesia, however, may offer a significant pointer for the developing world. Indonesia boasts 16 telephone lines per 1,000 people, compared with 460 per 1,000 in the UK. This puts it towards the bottom of the telephony league, even in the Asia-Pacific region. To help achieve rapid line growth the Indonesian government has licensed a company to build a "fixed cellular" network in urban areas.

The network is for fixed phones serviced by radio base stations. Connection and call charges will be the same as for conventional fixed-line phones, but the monthly rental will be at a premium to reflect the shorter waiting period for connection. It currently takes about two years to get a phone line: Ratelindo, the new fixed cellular operator, claims it will be able to meet demand within months.

Ratelindo, a joint venture between Indonesia's state-owned telecoms operator and Bakrie Electronics, a private company, is licensed to provide 280,000 fixed cellular connections – 250,000 in Jakarta and 30,000 in West Java. In effect it is competing with the state operator, and hopes to have made 50,000 connections by the end of the year.

Ratelindo's fixed cellular system – supplied by Hughes, a US manufacturer – is a flexible overlay network based on the TDMA system. Ratelindo claims that it provides a voice quality equal to that of a fixed-wire phone.

Hardianto Kamarga, president-director of Ratelindo, hails the Hughes system as a breakthrough. He claims it is "the most spectrum efficient digital cellular technology commercially available today," with about three times the capacity – that is subscribers per base station – of GSM, the digital cellular mobile system used in Europe.

"The fixed cellular system has a subscriber capacity equal to between 10 and 20 per cent of the fixed network," says Kamarga. As for the cost: "land-line telephones are inherently less expensive than comparable wireless systems for the same traffic capacity, but in the operating environment we have in Indonesia the balance can swing in favour of wireless."

Put bluntly, that means a price-competitive service can be provided because of the inefficiency of the existing state operator. Yet the same is likely to be true across the developing world.

For 280,000 Indonesians, the immediate choice is a fixed cellular phone or nothing. Faced with the same choice, millions on waiting lists across Asia, Africa and Latin America may embrace fixed cellular phones with alacrity.

System to block fraud on stolen mobile phones

By Alan Cane

Hot weather invites open car windows and sunroofs. Sadly, natural ventilation also makes it simple for the thief to make off with the car owner's mobile phone.

When other kinds of portable phone thefts are added in, the numbers become startling; the Federation of Communication Services estimates around 15,000 phones are stolen each month in the UK alone.

The Metropolitan Police has set up a special unit to tackle the problem.

Portable phones can be "hot" in more than one way, however. More insidious than the hand through the sunroof is electronic fiddling with the phone's identity, making it possible for a fraudster to run up huge telephone bills which are then charged to somebody else's account. The phone does not have to be stolen; a legally purchased phone can be altered so that calls made on it are charged elsewhere.

Called "rechipping", changing the electrical identity of a cellular phone is not illegal in the UK, although the FCS is calling for urgent changes in the law to act as a deterrent.

The problem is more acute for earlier analogue phones than the more recent digital versions. Now the Dutch telephone authority has developed a technology which it suggests is one way to solve the problem. The Anglo Dutch computer services company CMG has recently installed the system in Scandinavia where the mobile phone systems are linked. In the UK and Scandinavia, it seems that mobile phones are recognised by a registration number rather than an electronic identity check.

The essential difficulty is that there are perfectly good reasons why a mobile phone may need to be programmed with a new registration so the manufacturers leave open an electronic channel to the heart of the system. Fraudsters take advantage of this channel to create "clones" of existing phones. The genuine subscriber only realises what is going on when a huge bill arrives.

The operator closes down both genuine phone and clone but by then, of course, the fraudster has moved on. The Dutch solution makes use of secret keys stored both in the phone – either a microchip or smart card – and in the local exchange. A system of linked computers manages the distribution of the keys. If an exchange identifies a phone as genuine, it allows the call; otherwise use of the phone is blocked. If the subscriber is "roaming" or using the phone outside the local exchange area, key information is transmitted over the network to identify the phone.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbott Laboratories \$0.19
ACT 3.5p
Anglo Am. Inv. Trust 6% Gross Cm. Pf. R0.06
Aon Corp \$0.32
Asprey 4.8p
British Steel 1.5p
Chase Manhattan \$0.40
Colgate-Palmolive \$0.41
East Rand Prop. Mines R0.08
Eurofima 6½% Nts. 1995 C\$325
Feedback 1p
Fishguard & Ross. Rail. 3½% Pf. 1.225p
Marsh & McLennan \$0.725
Mountview Estates 12p
Nordic Inv. Bank 7.75% Nts. '98 £77.50
Sainsbury (J.) ADR \$0.143
Sanyo Elect. FRN 1997 Y161,058
Scottish Met. Prop. 10¼% 1st Mtg. Db.'16 £5.125
Sears 7¼% Un. Ln. 92/97 £3.625
Shanks & McEwan 1p
Shelton (Martin) 2.5p
Trinity Intl. 5% Cm. Pf. 1.75p
TSB Gilt Fund Ptg. Rd. Pf. 2p
UMECO 1.25p
Whitecroft 2p
Do. 5.1% Cm. Pf. 2.55p

■ TOMORROW
BOC ADR \$0.218
Britannia Bldg. Soc. FRN '96 £134.27
Brit. Funds 2½% IL Treas. £1.9884
Cropper (James) 2.4p
NatWest Bank Prim. Cap. FRN B \$197.97
Do. Var. Rate Cap. Nts. '08 £142.47
Nippon Credit Bank Fltg/Fixed Rate Nts. '04 \$2,111.67
SEEBOARD 8.45p
SKOPBANK-Finnish Bk. B Var. Rate Nts. \$143.75
State Bank of NSW Extendible FRN \$199.54
Sumitomo Bank Intl. Fin. FRN 2000 \$130.97
Vosper Thornycroft 12.7p
Wyndham Press 1.5p

■ WEDNESDAY AUGUST 17
Boots Company 10.1p
Citicorp \$0.15
Critchley 5.5p
Drive Secs. A FRN '96 £142.10
Do. Mezzanine FRN 1996 £162.26
E.R.F. (Hldgs.) 2p
Falcon Hldgs. 2p
Mansfield Brewery 3.15p
Natl. & Provincial Bldg. Soc. FRN '99 £133.90
Royal Bk Scotland FRN '05 £66.16
Scottish Met. Prop. 0.5p
Toyobo Co. FRN '98 Y64,527
Vodafone 4.23p

■ THURSDAY AUGUST 18
Archer Grp. 0.5p
Assoc. Nursing Services 1.5p
Brad. & Bingley Bldg. Soc. Collared FRN '03 £35.02
Britannia Bldg. Soc. FRN '95 £133.27
Chase Manhattan FRN 2000 \$127.78
Credit Foncier de Fr. 10¼% Serial Ln. '11, '12, '13, & '14 £256.25
Forte 10% 1st Mtg. Db. '18 £5
Kelt Energy 1p
L.A.B. Invs. 7⅛% '19 3.5625p
Leeds Permanent Bldg. Soc. FRN '03 £34.71
Lloyds Bank B Var. Rate Nts. '98 £142.10
Midland Bank FRN 2001 £66.64
NatWest Bank Undated Var. Rate Nts. £149.66
Wells Fargo FRN '98 \$124.58

■ FRIDAY AUGUST 19
BPB Inds. 5.3p
BTP 6.55p
Burtonwood Brewery 4.3p
Friendly Hotels 3.5p
Fuller, Smith & T. A 5.25p
Hambro Ins. Services 3.7p
Hunters Armley 1.32p
Ingham 3.25p
Microgen 2.2p
M & W 1.25p
Pilkington 2.5p
Scapa Grp. 4.23p
Sheriff Hldgs. 1.75p
South Wales Elect. 18.1p
Tams (John) Grp. 2.41p
Wells Fargo & Co. \$1

■ SATURDAY AUGUST 20
Caterpillar \$0.30

■ SUNDAY AUGUST 21
Brit. Funds 10½% Exch. '97 £5.25

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Aberdeen Steak Houses, Coventry House, Coventry Street, W., 10.00
Tams (John) Grp., North Stafford Hotel, Stoke-on-Trent, 12.00
BOARD MEETINGS:
Finals:
Epwin
US Smaller Companies Inv. Tst.
Interims:
Alliance Trust
HSBC
Malaya Grp.
Midland Bank
Regal Hotel Grp.
Relyon Grp.
Serif
Takare

■ TOMORROW
COMPANY MEETINGS:
Equity Consort Investment Trust, Five Arrows House, St. Swithin's Lane, E.C., 10.00
Falcon Hldgs., Walker House, Boundary Street, E., 3.00
Mansfield Brewery, Mansfield Civic Centre, Mansfield, 12.00
Symonds Engineering, The Ware Moat House, Ware, Hertfordshire, 11.00
BOARD MEETINGS:
Finals:
Angerstein Underwriting
Impala Platinum
Pifco
Scantronic
Interims:
AB Electrolux
Cantab Pharmaceuticals
Cheshire Bldg. Society
Evans Halshaw
Irish Life
Kalon Grp.
Lowe (Robert H.)
Micro Focus Grp.
Sedgwick

■ WEDNESDAY AUGUST 17
COMPANY MEETINGS:
E.R.F. (Hldgs.), Chimney House Hotel, Sandbach, Cheshire, 2.30
Wilshaw, Tower Thistle Hotel, St. Katherine's Dock, E., 11.30
BOARD MEETINGS:
Finals:
Aitken Hume Intl.
Armitage Bros.
Dunedin Japan Inv. Tst.
Interims:
BICC
Britannic Assurance
Mercury World Mining Tst.
Moorfield Estates
Nth. Midland Construction
Paribas French Inv. Tst.
Rea Brothers Grp.
Rosebys

■ THURSDAY AUGUST 18
COMPANY MEETINGS:
Avesco, Venture House, Davis Road, Chessington, Surrey, 11.00
Bristol Scotts, Bristol Stadium, Eastgate Centre, Eastville, Bristol, 12.00
Burtonwood Brewery, Rake Hall Hotel, Rake Lane, Little Stanney, Nr. Chester, 12.00
China Investment Trust, Knightsbridge House, 197 Knightsbridge, S.W., 11.30
Southern Water, The Dome, Brighton, 11.00
BOARD MEETINGS:
Finals:
BBB Design Grp.
Stanelco
Syndicate Capital Tst.
Interims:
City Centre Restaurants
Clarke (T.)
Dawsongroup
English & Scottish Inv.
Kode Intl.
Personal Grp.
Richardson Westgarth

■ FRIDAY AUGUST 19
COMPANY MEETINGS:
Drew Scientific, College Street, 29 Gresham Street, W., 11.30
Fuller, Smith & Turner A, Griffin Brewery, Chiswick Lane South, Chiswick, W., 11.00
TR Technology, 3 Finsbury Avenue, E.C., 12.30
BOARD MEETINGS:
Finals:
Lazard High Income
Interims:
Jourdan (Thomas)

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

ARCHITECTURE

Sense and sensuality

Italian designer Ettore Sottsass talks to **Alice Rawsthorn**

Ettore Sottsass started at the sight of a woman walking by in a pretty pink slip of a summer dress. "Aaaaargh!" cried the septuagenarian designer with an animalistic groan. "Look at that girl! Just look at her! She's almost naked!"

It is a testimony to how charming Sottsass can be that he can utter such an unashamedly sexist remark without making you hate him. But Ettore Sottsass has a great deal of charm indeed. At 76 he has the serene, sunny air of a man who has spent his life doing, well, probably exactly what he wanted: first as one of the bright young designers and architects who made waves in post-war Italy and latterly as a grand old man of European design.

He has just arrived in Paris in his grandee guise to open a retrospective of his work at the Pompidou Centre. He plays the role to perfection.

He stood smiling at his opening party, looking like a sci-fi sorcerer, with his tightly-plaited ponytail, blowing air kisses at some guests and autographing catalogues for others. Now he is sipping a chilled beer on a café terrace opposite the Pompidou, ogling the *Parisiennes* as they saunter into his show.

"It's strange to have a retrospective of your work while you're still alive," he says. "At first I didn't like the idea at all. It made me feel old and empty. It was as if I was dead and people were peering into my grave." How does he feel about it now? "Sad, very sad. It's such a big exhibition. So full of things. I look at it all and think what a waste. Why did I spend so much time working? I should have spent more time living."

Sottsass is not at all convincing when casting himself as a repentant workaholic: particularly as he goes on to rattle off a list of the Chinese houses, Sèvre vases and other projects vying for space on his drawing board. But the scale of his retrospective is undeniably impressive. It fills two floors of the Pompidou Centre, covering his entire career from the workers' houses he designed with Ettore Sottsass Snr, his architect father, in the late 1940s, to the post-modernist playpens he has been creating for his wealthy Japanese clients in the early 1990s.

Oliviero Toscani

Sottsass: a man who has spent his life doing what he wanted

The exhibition might begin and end with his buildings, but Sottsass has been most influential as an industrial designer and it is his designs that steal the show. He dabbled in fine art and architecture during the late 1940s when he returned to Italy from the Sarajevo prison camp where he spent most of the War. But his interest in design was kindled by a 1956 trip to the US, where he worked with George Nelson, one of the most innovative furniture designers of the era.

Sottsass's timing was perfect. The Italian companies of the 1950s saw design as an essential tool with which to establish themselves in the international market. They were eager to tap the talents of Sottsass and his fellow designers – Vico Magistretti, Marco Zanuso and the Castigilioni brothers. Sottsass was snapped up in 1958 by Olivetti, the electronics giant, to work as artistic director alongside Roberto Olivetti, the founder's son.

Olivetti was then making the transition from mechanics to electronics. "It was an era of great change," says Sottsass. "Some people in the company tried to resist those changes and mistakes were made. But it was an exciting time." It was also a period that produced some of his best work, when he reinterpreted the ideas of the 1960s pop artists – Roy Lichtenstein and Andy Warhol, whom he had befriended on his trips back to the US – into typewriters and calculators.

One of his most popular products for Olivetti was the Valentine, a pretty red portable typewriter that he designed in 1969. Sottsass now says that he never really liked it. "It's too obvious," he pouts. "It's a bit like a girl wearing a very short skirt and too much make-up. It's a perfect piece of marketing. After the Valentine I told Roberto that I'd only do office machines."

He feels happier about another high-profile project – Memphis, the group of furniture designers, including Michele de Lucchi and Robert Graves, with which he collaborated in the early-1980s. Memphis shared the same bright colours and bold forms as Sottsass's 1960s and 1970s furniture. But he was then seen as something of an iconoclast, whereas Memphis was absolutely in tune with its time. It provided the media with a very photogenic form of the post-modernist theories, then fashionable in academic circles. "Memphis really meant something," says Sottsass. "It was clear and uncompromising. That's why it was important at the time and why it still pleases me today."

Memphis was also one of the clearest expressions of Sottsass's own ideology. He owes his importance as a designer partly to his direct influence over younger collaborators and partly to his indirect influence over others, notably Philippe Starck, as one of the intellectual 'guerrillas', whose ideas helped liberate post-war design from the tyranny of Bauhaus austerity.

"When I was young all we ever heard about was functionalism, functionalism, functionalism," he says. "It's not enough. Design should also be sensual and exciting: something that is really challenging."

The least successful aspect of the Pompidou retrospective is its attempt to express the theoretical side of Sottsass's work by displaying his photographs with accompanying essays. Some of the photography works, such as the 'Design for the Rights of Man' series of still lives that he took in the early 1970s and which even today are scathing satires on conspicuous consumption.

Yet the random snaps of trees or doors are of no more than passing interest. And the entire exhibition would be better off without the post-coital shots of hotel beds recently rumpled by the great designer. "I really wish I hadn't looked at those pictures now," winced one young visitor after reading the explanatory text. Perhaps she should have taken heed of the title Sottsass had given to one of his latest glass pieces – the Naomi Campbell.

The Ettore Sottsass retrospective is on show at the Georges Pompidou Centre, Paris until September 5.

The colonial comes home

Simon Davies and Louise Lucas examine the challenge facing Nigel Rich at Trafalgar House

When Nigel Rich arrives at his desk as chief executive of Trafalgar House this morning he will be facing the greatest challenge of his career.

It is not the most obvious promotion to move from the helm of Jardine Matheson, the Hong-Kong conglomerate with a market capitalisation of £3.92bn a year, to run Trafalgar House, an ailing British group with a market value of £1.5bn.

Jardine Matheson enjoyed five years of profits growth under his leadership. But running Jardine is a very different task from turning Trafalgar round.

Jardine's main difficulties during his reign centred on the uncertainty created by the transfer of Hong Kong to Chinese sovereignty in 1997. The group's own politics are dictated by the London-based Keswick family, which exerts a control over the group belied by its stake of less than 10 per cent.

Jardine controls a myriad of South East Asian businesses, but the Keswicks have long been concerned about the political risks inherent in the 1997 hand-over of Hong Kong.

In 1984 they took the highly controversial step of moving Jardine's domicile from Hong Kong to Bermuda, and ten years later the company decided to move its stock market listing to London.

The purchase of an initial 15 per cent stake in Trafalgar in October 1992 was another step in the group's perceived move away from the colony. Hongkong Land, the Jardine property arm, now owns 29.6 per cent of Trafalgar, and has invested more than £300m to buy the stake.

Trafalgar was intended as a route by which Hong Kong profits could be channelled into a troubled conglomerate which it was intended would recover with the turn in the British economic cycle.

Early hopes have not been fulfilled. Trafalgar's problems have been far worse than the Keswicks expected and Rich is being asked not only to restore the group's profitability but also the family's reputation. For Rich, thus far, has been very much the Keswicks' man.

The switch will be a culture shock for him. He is leaving the cosy club atmosphere of Hong Kong's business community, where he sat at the helm of two of the colony's three most powerful institutions – Hong Kong & Shanghai Bank, where he was a director, and the Royal Hong Kong Jockey Club, where he served on the board of stewards.

He will also have to give up the Hong Kong races, a central feature of the colony's corporate life. Together with Paul Selway-Swift, a friend and director of Hongkong Bank, he owns a horse called Rock'n'Reel and has ambitions to own more.

But in fulfilling a long-standing desire to return to the UK he is set to become a member of an even more exclusive club, the Jardine group's UK-based strategic core. This comprises brothers Simon and Henry Keswick, who alternate as Jardine Chairman, and Rodney Leach, a long time adviser and fellow director who is a former Rothschild's banker.

Born in Somerset, but a self-avowed Scotsman, Rich, now 49, went to Sedbergh School and New College, Oxford, before training as an accountant.

He joined Jardine in 1974, aged 29. Armed with his Scottish background – Scottish culture is a strong feature of corporate Hong Kong – he spent 20 years as the archetypal colonial corporate man, operating from the various outposts of Jardine's Asian empire.

He ran the group's businesses in the Philippines, the majority of which were acquired in the early 1970s through the takeover of Theo H. Davies, the sugar and trading group previously owned by the family of his wife Cynthia.

He first rose to prominence within Jardine in 1983 when he became finance director of Hongkong Land, the colony's leading property investment and development company, which was then teetering on the brink of collapse.

There he cemented his relationship with Simon Keswick, for whom he had already worked as an assistant. Keswick had been rushed back to Hong Kong as a hands-on non-executive chairman to protect the family interests in Hongkong Land which had massively over-extended itself with HK$13.5bn of debt by the end of 1983 when property prices plummeted.

Rich's relationship with Simon flourished with the recovery of Hongkong Land, which involved substantial lay-offs, asset disposals and refinancing, masterminded by Rich and David Davies, the managing director. Rich's reward was the post of chief executive three years later.

In 1989 he rose to the pinnacle of the Jardine Matheson group as "taipan" where he became immersed in the political controversy which has dogged the group since it decided to move to Bermuda. Since it had been the first trading house formed in Hong Kong, the change of domicile by the so-called "princely hong" drew harsh criticism from almost every quarter in the colony.

During Rich's reign, the criticism escalated with Jardine's campaign to move its primary listing to London, which culminated in the decision earlier this year to quit the Hong Kong exchange altogether. All this and the Keswick family's support of Governor Chris Patten's political reform plans, led to Chinese accusations that Jardine was undermining the stability of the colony.

Rich endeavoured to keep out of politics, and was seen as a strong business manager, well respected by the senior management team in Jardine's broad spread of businesses.

At Trafalgar, he will at least be able to focus entirely on business, but he is certainly arriving at a time of crisis.

In May last year, Hongkong Land completed a boardroom purge with the removal of Trafalgar's remaining old guard: Sir Nigel Broackes, the group's founder and chairman, and Sir Eric Parker, the chief executive.

Insiders say it has lacked a sense of direction since. The company stated that it wanted to focus on engineering and construction – businesses where it is a world leader – but it failed to get acceptable prices for the hotel and cruise line businesses it had wanted to sell.

A stated aim of winding down the group's property development and investment businesses has also diminished. The recruitment of one of the city's leading property men, Alan Winter, suggests that property will remain a focus.

Meanwhile, the economic recovery is yet to feed through to Trafalgar's engineering arm, which made a further £15m of provisions last month, in addition to the £397.3m exceptional losses taken by the group late last year.

Rich will be expected to develop and communicate a new strategy and focus to the somewhat demoralised employees. Already, analysts are increasingly confident that profit margins in its construction and engineering division have bottomed out following substantial cost-cutting and job losses.

However, the share price has scarcely risen above the 85p level at which Hongkong Land launched its "dawn raid" back in October 1992.

There must be those within the Jardine camp who would question the wisdom of this investment. Rich has been brought in by the Keswicks to prove them wrong.

He is not one to shirk a challenge. Last year he took part in one of Hong Kong's more bizarre rituals, the annual MacLehose Trial, which involves walking 100km of mountainous trails. The trail ahead with Trafalgar will be equally arduous.

NAMES IN THE NEWS

Heirs to two fortunes seek to do good

When the Prince of Wales, the heir to the British throne, holds his next business leaders forum in Los Angeles in November, check who is at his elbow, writes William Hall. Tucked away alongside the great and the good from US blue chips such as American Express, Coca-Cola and Atlantic Richfield is likely to be the relatively unknown heir to a family fortune which is said to be many times bigger than that of Britain's royal family.

Ross Perot Jnr, 34, the only son of the self-made Texan billionaire who spent $60m on running for US president in 1992, has joined the board of the Prince's four-year-old Business Leaders Forum. Its mission is to promote the practice of good corporate citizenship and sustainable development internationally, as a natural part of successful business operations.

Ross Perot Jnr's background is very different from that of his 64-year-old father, who was the son of an East Texas horse-trader and started out as a humble IBM computer salesman after he left the US Navy. He formed Electronic Data Systems in 1962 and sold it to General Motors in 1984 for $1bn. Perot Snr, said to be worth $2.4bn, remains one of the most colourful business tycoons in the US.

His son, by contrast, has a much more conventional background. After leaving the US Air Force, he joined the family business and now owns and runs the Dallas-based Hillwood Development Corporation. It develops and manages mixed-use residential and commercial real estate in 15 US cities and has 23,000 acres under development. It has also worked with 20 or so big corporations on infrastructure projects to revitalise South Dallas.

The Prince's advisers hope that Perot Jnr will use his experience to help champion sustainable development in urban areas which might be relevant on a wider scale in countries like China.

Perot's involvement with the Prince of Wales's Business Leaders Forum is yet another sign that he is starting to make his own mark in business. Last year, he acquired another status symbol when he bought the Circle T ranch, once the weekend retreat of Nelson Bunker Hunt, the fallen oil and silver billionaire.

As the late Armand Hammer, the founder of Occidental Petroleum, realised, being seen rubbing shoulders with the future King of England is good for business.

Pascale's rapid rise up the line

The recent reshuffle at Italy's state holding companies has seen Ernesto Pascale promoted to the post of managing director of Stet, the telecommunications holding company which should be privatised within the next year, writes Andrew Hill.

Only three months ago, Pascale, 59, was named chairman and managing director of Telecom Italia, the newly formed Stet subsidiary which groups together all Italy's telecoms operating companies, including Sip, the domestic operator where he had been chairman for the previous three years.

But then last month, Michele Tedeschi, Stet's managing director, was asked to take over as chairman of Iri, the state holding company which is Stet's parent. Pascale (below) has now stepped into Tedeschi's shoes, and will play an important role – in tandem with Tedeschi – in the co-ordination of what some analysts refer to as "the mother of all Italian privatisations".

Only the timing of Pascale's move was unexpected; otherwise the promotion was in line with his steady rise through the Italian telecoms sector. Pascale joined Stet in 1956 straight from university in Rome. He transferred to Sip in 1977, and also worked for more than seven years as managing director of Italcable – the telecoms company now part of Telecom Italia.

His combined chairman/managing director job at Telecom Italia has been split between Umberto Silvestri, who took over as chairman earlier this month, and Francesco Chirichigno, who has become managing director.

Dunlap: no paper tiger

Albert Dunlap, turnround expert and long-time cohort of Sir James Goldsmith, is anything but a paper tiger, writes Laurie Morse. A qualified paratrooper trained at the US Military Academy at West Point, Dunlap has made a career out of setting companies right, regardless of the waste laid round him in terms of jobs lost and divisions decimated.

He has been described most clearly as a shark, and was once quoted in an interview as saying emotions have no place in business. His dispassionate hand is credited with pulling Lily-Tulip from the brink of collapse, and was employed by Sir James in the turnround of Diamond International and Crown-Zellerbach. He remains on the board of Sir James' General Oriental Investments, and recently returned to the US from Australia, where he was ceo of Consolidated Press Holdings.

In April, Dunlap landed in the chairman's seat of Philadelphia-based Scott Paper, where he is already ripping away at the soft underbelly of its tissue paper business. When he arrived, Scott was embarking on an aggressive restructuring that would have cut 8,300 jobs over a period of two to three years. Dunlap quickly modified that plan, boosting the job cuts to 10,500 – or about one-third of Scott's worldwide total – and accelerating it so as to complete it by the end of this year. The restructuring is expected to net Scott benefits in excess of $400m.

CONTRACTS & TENDERS

LEBANESE REPUBLIC
COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

TUNNEL HARET HREIK - SAND'S
INVITATION FOR TENDERING

In the scope of Beirut Southern Suburbs Utilities Upgradings, and according to the Law No. /246/ dated 12/7/1993, the Council for Development and Reconstruction invites qualified contractors for tendering for the execution of Haret Hreik - Sand's tunnel to discharge the storm water in Beirut Southern Suburbs.

The main works include the following :

1- A Tunnel from HARET HREIK to HORSH EL KATIL, 580m long approx., with an inside circular diameter 3.6m.
2- A Tunnel from HORSH EL KATIL toward the sea with 965m long approx., and an inside circular diameter 3.6m.
3- A rectangular Box culvert from the end of the Tunnel to the sea with 530m long approx., and an internal Cross section with a width of 5m, and a depth of 3.2m.
4- A rectangular Box culvert from Bir El Abed to the entrance of the tunnel at Haret Hreik, 900m long approx., and an inside circular diameter of 3.6m.
5- Special Complementary structures for the tunnel such as : the entrance of the tunnel at Haret Hreik, the junction between Haret Hreik tunnel and Sand's Tunnel at Horsh El Katil, the transition section between the circular section of the tunnel and the rectangular box culverts, the sea outlet near the Sand's beach, and other structures.
6- The Complementary Works includes : reconstruction of roads, sanitary sewers, storm water sewers, side walks and others works resulting from the execution of the project.

The tenderers should meet the conditions specified in the tender documents related to the project.

Some of these conditions are :

A- The contractor has executed during the last 20 years for the Lebanese contractors, and during the last 5 years for the foreign contractors, systems of underground urban utilities in the same importance of the current project which includes tunnel works not less than 3000 meter long and not less than 3 meter in diameter.
B- The earth works and the box culverts executed by the contractor in the last 20 years for the Lebanese contractors, and the last 5 years for the foreign contractors, should amount for not less than twenty five million U.S. dollars which includes a single Box culvert project for not less than One million U.S. dollars.

In the case of joint ventures between different contractors, at least one of the contractors in the group has to meet the conditions stated above in the paragraphs A and B, provided that all the contractors within the joint venture have executed works during the last 20 years for the Lebanese contractors, and during the last five years for the foreign contractors, amounting for not less than five million U.S. dollars.

Tenders must be submitted inside two separate sealed envelopes :

The first envelope shall contain the completed qualification documents contained in the Tender Documents for this purpose and any other supporting documents proving the technical and financial ability and experience of the Contractor. The second envelope shall contain the commercial proposal.

The Tender Committee shall proceed, in a public session on Friday 14 October 1994, with the opening of the first envelope only and establish the ability and experience of the Contractors. The Committee shall retain only those Contractors who qualify to execute the Project and shall return the Tender Documents of those Contractors who do not qualify.

The Tender Committee shall then open the second envelope of only those Contractors who have qualified publicly at a date and time to be announced in due time.

Contractors who wish to participate in this Tender are invited to collect the relevant Tender Documents against a sum of U.S. dollars ($ 5000) in the Form of a banker's certified Cheque in the name of the Council for Development and Reconstruction at the offices of C.D.R., during official working hours as of Friday, August 12, 1994 at the following address :

The Council for Development and Reconstruction
Tallet Al-Saray
Beirut - Lebanon

Tenders are to be submitted at the above address not later than 12:00 hours noon Beirut local time at the offices of C.D.R. on Friday October 14, 1994

LEGAL NOTICES

Company Number: 2440087
SCHERING INDUSTRIAL PRODUCTS HOLDINGS LIMITED
Notice of Resolution for payment of capital
NOTICE is hereby given in accordance with section 175 of the Companies Act 1985 that:
1. the above named company ("the Company") has approved a payment out of capital for the purpose of acquiring 4,756,000 ordinary shares of £1 each;
2. the amount of the permissible capital payment for the shares in question is £4,756,000;
3. the date of the resolution for payment out of capital is 10 August 1994;
4. a statutory declaration of the directors of the Company and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office;
5. any creditor of the Company may at any time within the 5 weeks immediately following the date of the resolution for payment out of capital apply to the court under section 176 of the Companies Act 1985 for an order prohibiting the payment; and
6. the registered office of the Company is at The Brow, Burgess Hill, West Sussex, RH15 9NE.

Company Number: 1973492
SCHERING INDUSTRIAL PRODUCTS LIMITED
Notice of Resolution for payment of capital
NOTICE is hereby given in accordance with section 175 of the Companies Act 1985 that:
1. the above named company ("the Company") has approved a payment out of capital for the purpose of purchasing 4,600,000 ordinary shares of £1 each;
2. the amount of the permissible capital payment for the shares in question is £4,600,000;
3. the date of the resolution for payment out of capital is 10 August 1994;
4. a statutory declaration of the directors of the Company and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office;
5. any creditor of the Company may at any time within the five weeks immediately following the date of the resolution for payment out of capital apply to the court under section 176 of the Companies Act 1985 for an order prohibiting the payment; and
6. the registered office of the Company is at The Brow, Burgess Hill, West Sussex, RH15 9NE.

Company Number: 2385098
SCHERING HOLDINGS LIMITED
Notice of Resolution for payment of capital
NOTICE is hereby given in accordance with section 175 of the Companies Act 1985 that:
1. the above named company ("the Company") has approved a payment out of capital for the purpose of purchasing 70,000,000 "B" ordinary shares of £1 each and of redeeming 27,000,000 redeemable shares of £1 each;
2. the amount of the permissible capital payment for the shares in question is £97,000,000;
3. the date of the resolution for payment out of capital is 10 August 1994;
4. a statutory declaration of the directors of the Company and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office,
5. any creditor of the Company may at any time within the five weeks immediately following the date of the resolution for payment out of capital apply to the court under section 176 of the Companies Act 1985 for an order prohibiting the payment; and
6. the registered office of the Company is at The Brow, Burgess Hill, West Sussex, RH15 9NE.

Company Number: 2444036
SCHERING AGROCHEMICALS HOLDINGS LIMITED
Notice of Resolution for payment of capital
NOTICE is hereby given in accordance with section 175 of the Companies Act 1985 that:
1. the above named company ("the Company") has approved a payment out of capital for the purpose of acquiring 82,185,000 ordinary shares of £1 each;
2. the amount of the permissible capital payment for the shares in question is £85,000,000;
3. the date of the resolution for payment out of capital is 10 August 1994;
4. a statutory declaration of the directors of the Company and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office;
5. any creditor of the Company may at any time within the 5 weeks immediately following the date of the resolution for payment out of capital apply to the court under section 176 of the Companies Act 1985 for an order prohibiting the payment; and
6. the registered office of the Company is at The Brow, Burgess Hill, West Sussex, RH15 9NE.

LEGAL NOTICES

NOTICE OF PUBLIC TENDER

THE PARLIAMENT OF THE REPUBLIC OF SLOVENIA

hereby notifies interested international auditing firms that it has published in the Official Gazette of the Republic of Slovenia No. 48 of August 5, 1994,

A PUBLIC TENDER

inviting bids from international auditing firms to perform audits and submit reports on the use of financial assets and other assets owned by enterprises and banks undergoing financial reconstruction as well as on transfers of financial assets of suspected legality performed by the aforesaid.

An evaluation is expected of whether transactions were genuine and prices and conditions were at arm's length and not to the detriment of socially owned assets and of whether illegal removal of socially owned and corporate capital took place.

The purpose of the investigation is to determine whether and to what extent public interest has been damaged and whether such damage has been caused by cooperation of persons with delegated public authority.

LLOYDS BANK

Any customers of any of the branches of Lloyds Bank Group who consider that they may have suffered financial loss in their dealings with Lloyds Bank are invited to contact: 081-789-9221 or fax: 081-789-7978. Reference JF.

ARTS

OPENINGS

HELSINKI
This year's Helsinki music festival has a strong British slant. After the opening performance of Messiah at the Opera House on Sunday, the programme offers a ballet by Johann Kresnik inspired by the paintings of Francis Bacon (left), a performance of Britten's Nocturne by Neil Mackie and a pair of London Sinfonietta concerts devoted to music by Birtwistle and other contemporary British composers. Jukka-Pekka Saraste conducts home forces in Mahler's Eighth Symphony, and there is a concert devoted to Finnish composer Kalevi Aho.

EDINBURGH
This is Brian McMaster's third year in charge of the annual three-week Edinburgh Festival, which opened yesterday. Several of the artists appearing in this first week are returning after their successes in one or both of his two previous festivals: Charles Mackerras (again conducting a Mozart opera in concert while preparing it for a recording), the mezzo Olga Borodina (in recital) and soprano Galina Gorchakova, the theatre directors Robert Lepage and Peter Stein.

● The fine Miami Ballet performs an all-Balanchine programme at the cavernous Playhouse Theatre, until August 20. Then on August 20 and 21, Mark Morris presents his masterpiece, "L'Allegro" at the re-furbished and excellent Festival Theatre: absolutely not to be missed.

● Having chosen Beethoven (left) as one of this year's featured composers, Edinburgh has nominated Wednesday as "Fidelio" day. The difficult gestation of Beethoven's only opera will be examined through lectures and concerts, including a performance of "Leonore". In the evening the programme culminates with "Fidelio" itself in Scottish Opera's new production, directed by Tim Albery.

LUCERNE
The Lucerne Festival has broken off some of the shackles of convention since Matthias Bamert (left) became director in 1992. This year's programme, starting on Wednesday, includes a 70th birthday tribute to avant-garde Swiss composer Klaus Huber, a street-music festival and a series of events breaking the rules of traditional concert form. But the festival's main attraction – next to its beautiful lakeside setting – continues to be its enviable line-up of front-rank orchestras, conductors and soloists.

THE BARBICAN
The precipitative piano style of young jazzer Julian Joseph is applied to a performance of Gershwin's Piano Concerto in F with the Royal Philharmonic Orchestra on Saturday. The weekend showing at the Barbican Hall also has Joseph in an improvised duet with Joanna MacGregor and some new orchestral arrangements on his own compositions. On Sunday, he reverts to familiar trio and big band workouts.

Prurience or the pursuit of truth?

Biography is one of the most popular literary forms. But, says Jackie Wullschlager, its days may be numbered

W.H. Auden thought it should never have been written. The critic Dame Helen Gardener called it "a directory for consenting adults." From the liberal Bloomsbury Set came calls for wholesale suppression. But thousands of readers lapped up its story of homosexual love and intrigue, and it changed the face of post-war British biography.

The book was Michael Holroyd's life of Lytton Strachey, first published in 1967 and re-issued, with much new material, next week. It is still a marvellous read, and its fresh crop of sexual details – chiefly about the amorous triangle of Strachey and artists Dora Carrington and Mark Gertler – continue to interest. But this time round Holroyd's revelation will barely raise an eyebrow, because the liberal biographical climate which the book engendered in the 1960s has now become the norm.

No book since Strachey's own *Eminent Victorians* in 1918 has had a greater effect on the way we interpret and reconstruct past lives, and to trace the joint influence of Strachey and Holroyd on modern biography is to trace a revolution both in our attitudes to sex and to art, as in our growing fixation on the private lives of public figures. Is the tradition they began still a liberating force in British culture, or has it now gone too far?

In 1918 Strachey blew the whistle on the earnest, tip-toeing Victorian style of biography with his sarcastic account of 19th century icons such as Florence Nightingale and General Gordon. Half a century on, Holroyd's biography of Strachey turned the tables on the Bloomsbury writer, bringing to the surface methods of interpretation which Strachey's malicious purring had only implied. Discussing Strachey's affair with Duncan Grant, the madcap proposal to Virginia Woolf – "I was in terror lest she should kiss me" – and the effect of schoolboy crushes on his neurotic experiences, Holroyd showed that a full picture of an individual could only be drawn if it included intimate details, the inner life as well as the output achievement. "Rather wonderful and terrible how *all* that can now be said," wrote Nancy Mitford of the book.

Modern literary publishing for good and ill, has never looked back. On the one hand, Holroyd's spirit of openness and his elegant novelistic style, burst the floodgates of biographical restraint and made biography a popular, best-selling genre. Its highlights includes some of the best books of the last 30 years, such as Richard Ellmann's life of Oscar Wilde, Victoria Glendinning's Trollope, Lyndall Gordon's Charlotte Bronte – all exquisite accounts of the personal lives of writers within the context of their work and times.

On the other hand, many recent books suggest that the post 1960s tradition of tolerant, revealing biography is entering a last, decadent phase in which *all* that matters is an artists sex life. Extended speculation on the sexual habits of Hardy and his second wife, for example, made Martin Seymour Smith's massive scholarly biography of the writer, published this year, a joke. Recent lives of Picasso and Brecht chronicled their lovers rather than their work. And as new biographical subjects run out, lives of wives and girlfriends – Lawrence's women, Madox Ford's lover, Flaubert's mistress – replaced them, licensing pages of dull pillow talk. Where Holroyd or Ellmann made biography an art form, the tail end of their tradition is degenerating into vulgar tittle-tattle.

It is no coincidence that Holroyd and Ellmann's masterpieces are both about homosexual satirists, Strachey and Wilde, who spent their lives trying to change social and sexual attitudes. Strachey and Wilde's homosexual affairs, *outré* poses, the flirtation with scandal marked them as outsiders and were bound up with the mockery of repressive convention in their works such as *Eminent Victorians* and *The Importance of Being Earnest*. As sexual pioneers, their biographies cried out for a link between life, art and the wider social panorama, and it is this which makes Holroyd's *Strachey* and Ellmann's *Wilde* so entertaining and significant.

But take away this dimension, and catalogue Florence Hardy's efforts to stimulate her ageing husband, or Picasso's pick-ups, and you are left with a dull quasi-pornographic record masquerading as a serious book. For what makes sex on the page subversive and interesting is social context. F.R. Leavis used to tell his students that Strachey was responsible for the outbreak of the second world war; Paul Johnson has argued that by destroying patriotism, Strachey created a national emptiness which became the homosexual recruiting ground at Cambridge for Soviet espionage.

It was these sort of links between culture and sexuality that made Holroyd's 1967 biography so inflammatory. In 1994, Holroyd's new material centres on Dora Carrington, Strachey's adoring companion, and the second half of the book is now also a biography of her. She attracted to their home the sort of virile, charismatic young men that Strachey loved and married one of them to ensure that their ménage continued. Eventually, she wrote, a lesbian affair "killed my desires for Les Jeunes Garçons pretty completely," and when Strachey died, she shot herself.

This tumultous tale has much gloss and few social reverberations, and is the weakest part of the book. But so fashionable have flamboyant private lives like Carrington's become for their own sake, that this new section has immediately been seized upon to enter 1990s mainstream culture; a film, *Carrington*, directed by Christopher Hampton, starring Emma Thompson and Jonathan Pryce, is to be made of it and will open next spring. Nothing shows more clearly the revolution in our attitude to private lives that Strachey's and Holroyd's work has effected this century.

Strachey first weaved sex into cultural criticism – of Virginia Woolf to *The Lighthouse*, he complained that "It is the lack of copulation that worries me" – at a time when it was radical and provocative to do so. Now the pendulum has swung the other way, and our culture goes so far as to judge public or artistic achievement by private affairs, hence the biographies which dismiss Picasso's painting or Brecht's plays because their creators were irresponsible in bed, or the lives of Flaubert's and Madox Ford's lovers, which accord their subjects artistic status because they slept with great writers.

Since "Lytton Strachey" appeared in 1967, there have always been those keen to curb this prurient interest – from a Spectator article in 1968, warning that fears of Stracheyesque indescretion would lead potential biographical subjects to destroy letters and journals, to the Lord Chancellor's 1993 consultation paper on The Infringement of Privacy, which recommended restriction of published material causing "substantial stress, to relatives or descendants".

For the biographer, this form of censorship would be disastrous. But contemporary biography is more endangered by its own decadent trends towards sex'n'shopping lives than by outside restrictions. The new edition of Holroyd's classic biography (*Chatto £25, 780 pages*) looks as bright and undated as if it were written this morning – a tribute to its style and insight, but also a comment on the fact that no new biographical tradition has emerged since the 1960s. Where is the Michael Holroyd, or indeed the Lytton Strachey, for the 21st century?

Detail from Dora Carrington's portrait of Lytton Strachey, finshed at the end of 1916

Theatre

Under Their Hats

In *Under Their Hats*, a compilation of pieces by Flanders and Swann at the King's Head, Islington, deviser Alan Strachan has been rash enough to include a spoof on the old D'Oyly Carte Opera Company.

Why does Gilbert and Sullivan still have bite while much of Flanders and Swann is inoffensive? Perhaps because the Victorians were on the attack, even though they knew their targets were in the stalls. Flanders and Swann look on the audience as their accomplices and a cosy conspiracy results. At its worst it includes whimsy. It can patronise the safely non-theatre-going classes ("The Gasman Cometh"). The double bluff of the "Song of Patriotic Prejudice" bespeaks the true complacency of nationalism by apparently laughing at it. And a certain philistinism is taken for granted in the audience, even in the "Guide to Britten" despite its neat turns of phrase ("*Albert Herring* was pickled and cured").

Yet just when you are damning the entertainment as irredeemably middle-class and hopelessly English up pops something extraordinary: a song prompted by the announcement that the result of stockpiling nuclear arms was a total of "twenty tons of TNT" for every human being in the world. The song is magnificent in its controlled anger and urgency: as scathingly deadpan as anything by Brecht.

In Wendy Toye's production two women and four men mix biographical detail with the comedy. There emerges a gentle idealism. This is less apparent in the innocent political mockery of "There's a hole in my budget" than the ironic self-congratulation of countryside polluters ("The Bedstead Men") and the exhaustingly dedicated modishness of "Design for Living" ("We're terribly House and Garden").

Above all, there are the animals. The well-loved hippo of "Mud" and the gnu of course, but more interestingly the wistful, the lonely and the yearning. Susie Blake adds a Chekhovian dimension to her musings on what she might have done if she hadn't been a sloth, hanging upside-down. And I had forgotten the extraordinary, sad surrealism of "The Armadillo", a fey tragi-comedy worthy of Edward Lear.

Of the big set pieces, Stefan Bednarczyk displays extraordinary breath-control in the famous Mozartian "Ill Wind" ("I bought a French horn . . ."); and in "Los Olvidados" Moray Watson describes the olive-stuffing festival in terms of the bull-fight with a serious sense of the ridiculous that almost disguises its contempt for the *corrida*. You realise that quite a lot of satirical edge can be blunted by cheerful humour. Perhaps Flanders and Swann were too *nice*.

Martin Hoyle

INTERNATIONAL

ARTS GUIDE

BERLIN

● Maximilian Schell stars as Professor Higgins in a German-language staging of My Fair Lady directed by Frank Dunlop. Daily except Mon at the Schiller Theater (030-313 5031)
● The annual open-air Shakespeare production at Freilichtbühne Zitadelle in Spandau is Romeo and Juliet. It runs till Aug 30 (030-331 8920)
● A new choreography by German choreographer Susanne Linke opens at Hebbel-Theater on Fri, as part of a dance festival running till Aug 28 (030-251 0144)
● Pink Floyd gives a concert at Maifeld Olympia Stadium on Sun, followed by Phil Collins on Sep 1 (030-809800)
● The 1994 Berlin Festival (Aug 30-Sep 29) includes performances by the Berlin Philharmonic Orchestra under Abbado, Barenboim, Boulez and Tennstedt, plus recitals by Pollini, Brendel and Christa Ludwig, guest performances by St Petersburg's Maly Theatre and a focus on the music of Berthold Goldschmidt (030-2548 9250)

COLOGNE

The new season at the Philharmonie begins on Fri with a Cologne Radio Symphony Orchestra concert conducted by Heinrich Schiff, featuring works by Mozart, Haydn, Shostakovich and Prokofiev. Seiji Ozawa conducts the Saito Kinen Orchestra on Aug 25, and Schiff reappears as cello soloist in orchestral concerts on Aug 26 and 27. James Conlon conducts the Gürzenich Orchestra in Bruckner's Ninth Symphony on Aug 28, 29 and 30 (0221-2801)

DRESDEN

Semperoper Tomorrow: Krzysztof Penderecki conducts Sinfonia Varsovia in works by Prokofiev, Penderecki, Tchaikovsky and Mendelssohn, with cello soloist David Geringas. Wed: Frank Peter Zimmermann violin recital. Fri: Enoch zu Guttenberg conducts Haydn's The Seasons. The opera season begins on Aug 25 with a revival of The Cunning Little Vixen. Giuseppe Sinopoli conducts orchestral concerts on Aug 28, 29 and 30 (0351-484 2323)

FRANKFURT

This year's Frankfurt Festival runs from August 26 to October 3 at the Alte Oper. Highlights include concerts by the Israel Philharmonic Orchestra conducted by Georg Solti, the Chamber Orchestra of Europe under Gennady Rozhdestvensky and the Los Angeles Philharmonic under Esa-Pekka Salonen, plus a performance of Mahler's Eighth Symphony, world premieres of works by Wolfgang Rihm, Luca Lombardi and Edison Denisov, and recitals by Anne Sophie Mutter, Midori and Mitsuko Uchida (069-134 0400)

HAMBURG

● David Merrick's musical 42nd Street runs daily till Aug 28 at the Deutsches Schauspielhaus (040-248713)
● Hamburg's annual music festival runs from Sep 4 to 18, with a special focus on Schumann and Paul Dessau (040-354414)

NEW YORK

THEATRE
● Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, Broadway at 76th St, 239 6200)
● Angels in America: Tony Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200)
● Perfect Crime: Warren Manzi's long-running thriller about a wealthy psychiatrist accused of murdering her husband, and the small-town detective who tries to prove she committed the perfect crime (Duffy, 1553 Broadway at 46th St, 695 3401)
● Two Gentlemen of Verona: summer in New York means free Shakespeare in the Park, care of the New York Shakespeare Festival. Their revamped box office policy means that audiences no longer need to queue all day for tickets - though that was part of the fun. Adrian Hall directs Shakespeare's comedy, opening on Thurs (861 7277)
● Laughter on the 23rd Floor: Neil Simon's 27th Broadway play, about a group of writers trying to come up with a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St, 307 4100)
● Suburbia: a dramatic comedy by Eric Bogosian about a group of angry and aimless 20-year olds who hang out in the parking lot of a 7-Eleven. Ends Aug 28 (Mitzi E. Newhouse, 150 West 65th St, 239 6200)
● Carousel: Nicholas Hytner's bold, beautiful National Theatre production from London launches Rodgers and Hammerstein towards the 21st century (Vivian Beaumont, Lincoln Center, 239 6200)
● Kiss of the Spider Woman: pop star and ex-Miss America Vanessa Williams has taken over Chita Rivera's starring role in the long-running Kander and Ebb musical directed by Harold Prince (Broadhurst, 235 West 44th St, 239 6200)
● Crazy for You: the musical based on Gershwin's Girl Crazy recently passed its second anniversary on Broadway. A highlight of this glitzy entertainment is Susan Stroman's choreography (Shubert, 225 West 44th St, 239 6200)
● Guys and Dolls: a top-notch revival of the 1950 musical about the gangsters, gamblers and good-time girls around Times Square (Martin Beck, 302 West 45th St, 239 6200)

MUSIC
● The Lincoln Center's Mostly Mozart Festival is in its final week. Tonight's period instrument concert is given by Tafelmusik. Gerard Schwarz conducts the Mostly Mozart Orchestra tomorrow and Wed in works by Schubert and Mozart, with violin soloist Christian Tetzlaff. The Chamber Music Society of Lincoln Center plays Mozart, Beethoven and Mendelssohn on Thurs. Gerard Schwarz conducts the final concerts on Fri and Sat, featuring Mozart's Eine kleine Nachtmusik and Beethoven's Ninth Symphony, with a line-up of soloists headed by Carol Vaness (875 5030)
● The Metropolitan Opera's 1994-5 season opens on Sep 26 with a gala featuring Placido Domingo in Il Tabarro and Luciano Pavarotti in I Pagliacci. The first new production will be Lady Macbeth of Mtsensk, opening on Nov 10 in a staging by Graham Vick conducted by James Conlon, with a cast headed by Maria Ewing (362 2000)

PRAGUE

Prague Musical Summer, a concert series organised by the Prague Symphony Orchestra, runs till Sep 6 in three venues - the Church of Saints Simon and Jude, the South Garden of Prague Castle and the Dvorak Hall of the Rudolfinum. This week's programme includes recitals by the Telemann Quartet tomorrow, Le Mans Cathedral Choir on Wed and Apollon String Quartet on Thurs. The Bavarian Youth Orchestra plays works by Mozart and Bruckner on Sat (02-2489 3111). Tickets and information for other events can be obtained at Bohemia Ticket International at Na Prikope 16 in the city centre (02-2421 5031) or from abroad at BTI, Salvatorska 6, 11000 Prague 1 (tel 02-2422 7832 fax 02-2481 0368)

VIENNA

● The Roman ruin in the park of Schönbrunn, the former residence of the Hapsburgs, provides an open-air venue for the Vienna Kammeroper's summer productions. Don Giovanni runs daily except Wed and Sun till Aug 27 (01-513 0851)
● Klangbogen, Vienna's summer concert series, runs till Aug 30 at various venues throughout the city. This week's programme includes concerts on Wed and Thurs by the Orchestra della Svizzera Italiana with cello soloist Ofra Harnoy and contralto Nathalie Stutzmann (01-4000 8410)

ZURICH

Opernhaus The new season begins next Mon with the first of four celebrity orchestral concerts conducted by Vladimir Fedosseyev, Mariss Jansons, Marcello Viotti and Georges Prêtre. The first opera performance is on Sep 1, when Mara Zampieri, Neil Shicoff and Ruggero Raimondi head the cast in Tosca (01-262 0909)
Tonhalle Claus Peter Flor conducts Tonhalle Orchestra in a Beethoven cycle on Aug 24, 29 and Sept 2

ARTS GUIDE
Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV
(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

A cure to relieve 'derivatives angst'

PERSONAL VIEW

Recent well-publicised losses in the market for derivatives have intensified public discussion of these complex instruments whose value is based in part on some underlying financial market. A recurring theme has been the call for increased scrutiny of derivatives activities and legislative action to relieve what can be called "derivatives angst".

What is derivatives angst? It is the feeling that these new instruments are so volatile, and their volume and use growing so fast, that they could overwhelm the financial system. We need to be vigilant about systemic risk, but the visions of melt-down are overblown.

The focus of any efforts, at this point, should be the marketplace, not legislation. Aggressive action by private-sector participants, combined with increased co-operation among regulators and supervisors, will go far in alleviating derivatives angst.

Our objective is simple: to make sure that these instruments, which serve a necessary and constructive purpose in helping to manage risk, are used safely and soundly by all, in a way that increases stability and confidence in the financial markets globally.

There is a clear need for private-sector action on at least three fronts:

- improving disclosure standards and designing a new framework for tracking capital flows;
- ensuring high-quality and independent risk assessment capabilities at each user firm;
- and reducing, if not eliminating, settlement risks.

The type and quantity of information available to market participants is insufficient. The current framework of financial disclosure does not suffice to analyse risk when firms can so quickly transform their risk profiles with derivative instruments. All market participants must have adequate information to make informed, rational decisions, as a matter of efficiency and equity. Knowing a firm's appetite for taking risk and its ability to control that risk are essential for any shareholder, creditor or counterparty.

To narrow the information gap, individual market participants must develop bold and ambitious disclosure standards that go well beyond the traditional balance sheet and income statement. Comprehensive disclosure of both risk positions and risk management practices would also enhance the discipline of the marketplace.

Moreover, enhanced disclosure would serve to heighten directors' and senior managers' awareness of the dimension and the risks of derivatives and other capital markets transactions.

Beyond financial disclosure, an information gap also exists regarding the size and direction of capital flows within markets and around the globe. Here, too, derivatives and related market innovations have reduced our ability to discern the distribution of risks across capital markets. It would take a great deal of ingenuity to design a comprehensive system to measure capital flows, but it is worth the effort. The necessary first step is to compile the main questions such capital flow data should help answer, and we are ready to work with market participants to get the effort going.

The current framework of disclosure does not suffice to analyse risk

A second priority that market participants must embrace is establishing independent risk-management staffs and developing rigorous measurement and analytical capabilities. While there has been progress on these fronts, more needs to be done, particularly in ensuring a strong internal control environment.

It is essential that skilled personnel are hired, with equal status, not only for the trading floors and risk management staffs, but also for back-office and internal audit functions.

Given that virtually all of the most significant trading-related losses have involved internal control breakdowns, I am convinced that a substantial commitment of monetary and human resources to internal controls earns a high rate of return for dealers and end-users alike.

An important next step is to develop and implement sophisticated stress-testing regimes. A firm needs to be satisfied that its resources are sufficient to buffer it from a broad range of low-probability, extraordinary events involving the various components of market, credit, liquidity and operational risks. One of the most important functions of stress testing is to identify unrecognised vulnerabilities, often the result of hidden assumptions, and make clear to trading managers and senior management the consequences of being wrong about their assumptions.

Finally, there is a critical need to take immediate action to eliminate what we call "Herstatt risk" – the risk of settlement failure in foreign exchange. Several initiatives currently under way, including the development of netting agreements in foreign exchange and efforts to create a foreign exchange clearing house, are constructive and important. But additional substantial progress must still be made before we can eliminate – or nearly eliminate – Herstatt risk.

If we do not act with an aggressive agenda, the grip of derivatives angst will be unrelieved. Derivatives are a positive force for the market, and we must ensure that market practices inspire confidence in all participants, private and public, dealers and end-users.

For our part, I recognise that we, the regulators and supervisors, must acknowledge our collective responsibility for ensuring the success of our primary mission: the preservation of a sound and resilient global financial marketplace.

William J McDonough

The author is president, Federal Reserve Bank of New York

Risen from the electronic ether

Philips has still to show that it can make it in the multimedia big league, says **Ronald van de Krol**

Philips, the Dutch electronics group, has clearly survived the traumas of the early 1990s, when heavy losses and hefty debts nearly caused its collapse. Having pulled through the crisis, Philips must now show that it can marshal its resources and develop a product range with which to compete in the multimedia age.

Last week, the company managed to close two painful episodes. First, on Wednesday, it announced plans to spend Fl 500m ($275m) to boost capacity at its semiconductor plant in the Dutch town of Nijmegen. The move is significant. Not only is it the biggest single investment in new plant since the dark days of the early 1990s; the equipment will also fill a symbolic "hole" in the Nijmegen factory caused by the painful decision in 1990 to pull back from commercial production of static random-access memory (S-Ram) chips. Philips had hoped to break into the market for these advanced chips – a market dominated by Japanese manufacturers.

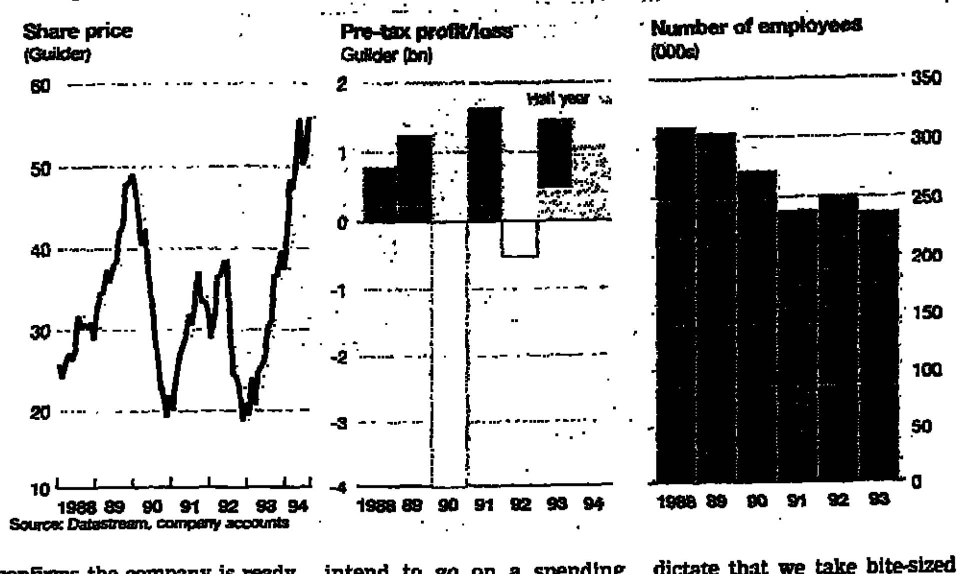
The surprise cancellation of the S-Ram project was the first wrenching step taken by Mr Jan Timmer when he became Philips' president. Under his crusade to shake up corporate culture, Operation Centurion, he forced the company to emphasise profits and productivity over job security and scientific prestige. His scrapping of the project left part of the Nijmegen plant empty, and this is the space that will be filled by equipment to produce Philips' new generation of submicron integrated circuits. These are the miniaturised, energy-efficient "brains" of cellular telephones and other portable electronics products.

Second, on Thursday last week, Philips announced a 244 per cent increase in second-quarter profits, the biggest gain so far in the 1990s. What confirmed Philips' rehabilitation was not so much the rise itself, though this exceeded forecasts, but the fact that nobody seemed particularly worried ahead of the results or relieved afterwards. There was none of the hand-wringing and doom-saying that accompanied other quarterly reports in the Netherlands in recent years.

Philips, in short, has become a "normal" company again, treated little differently from other blue-chip Dutch groups that have reported results over the past two weeks: its survival is no longer in doubt.

Mr Dudley Eustace, Philips' finance director since 1992,

Philips: out of danger



Source: Datastream, company accounts

confirms the company is ready to move from cost-cutting to "revitalisation". But does Philips, just back in good financial health with a balance sheet that is finally lightened of debt, have deep enough pockets to compete in the expensive world of multimedia deals?

The company clearly has the resources to invest and the ability to borrow, having secured a $2.5bn stand-by credit facility in June from a consortium of international banks led by CS First Boston. But observers do not expect it to embark on big acquisitions or lavish investment spending.

The Fl 500m to pay for the new section of the Nijmegen plant will come out of the semiconductor division's own cash flow. The investment is one that the division has earned: "They cut back early, and they've become fit and ready," says Mr Eustace.

Earlier this year, Mr Eustace said Philips might consider a share issue if the right acquisition arose in the field of "software". In the new jargon of multimedia that term now encompasses the music, films and information systems that run on the industry's "hardware", such as video recorders and interactive compact disc players. But Philips does not intend to go on a spending spree. "We have so recently come down from a very highly indebted level that I have no desire to leave the impression with the investment community at large that all of a sudden we've forgotten our past," Mr Eustace says.

The company's statements bring to mind its strategy in the early 1990s when PolyGram, its majority-owned entertainment company, decided to move into films by acquiring small production companies, one of which produced the hit film *Four Weddings and a Funeral*.

This low-key, low-cost approach contrasted sharply with the billion-dollar acquisitions of big Hollywood studios by Philips' richer Japanese rivals. Sony acquired Columbia Pictures and Matsushita bought MCA, owner of Universal Pictures.

Mr Eustace acknowledges a similarity between Philips' careful involvement in film and its overall investment plans. "I think we're still a pretty cautious Dutch company, and we're not likely suddenly to go and enter the race to buy CBS or something like that," he says. "Prudence will dictate that we take bite-sized moves into this area, rather than trying to swallow a giant. That would be very foolish."

Still, Philips is gearing up for higher investments at a time when it has yet to recoup the money it has put into its three latest consumer-electronics products – high-definition television (HDTV), compact disc-interactive (CD-I) and digital compact cassette (DCC).

HDTV's birth has been hampered by competing ideas on standards in Europe, Japan and the US, and it has yet to be launched on the mass market.

By contrast, CD-I and DCC have both been brought fully to market, and there is no disguising that sales of players for DCC – Philips' successor to the analogue audio cassette – have been disappointing. The company is now narrowing down its initial European marketing focus to the UK and parts of the Continent, but it is clear that DCC has not yet emerged as a "must-have" product.

CD-I sales have been more encouraging, but Philips has not succeeded in making the interactive CD player – capable of teaching people to play musical instruments or to access a "living" encyclopedia from the television sets in their living rooms – the industry-wide vehicle for multimedia entertainment and education.

Philips protests that its three latest consumer-electronics products always come under media scrutiny, to the exclusion of other innovations, ranging from medical scanners to car headlights. It adds that all three predated the Centurion shake-up and were launched, almost simultaneously, in the middle of a recession.

This will not, however, be a credible excuse for any market failure by the products of any new investment programmes. How these products fare will be an important test not only of the company's new-found financial health but of its ability to shake off its sluggish, paternalistic past and to create a growth-orientated, entrepreneurial organisation.

Philips acknowledged early on under Mr Timmer that it needed to tap outside expertise. Indeed, one of the visible signs of the changes at Philips is the number of Americans, Britons and Scandinavians now in charge of product divisions. Of the 13 members of the group management committee, the company's main operational forum, just five are Dutchmen, a reversal of the situation before 1990 when Dutch executives, usually lifelong Philips veterans, filled the top rank.

In keeping with the new pattern, Philips Media, the New York-based outpost of the group's multimedia ambitions, is now run by Mr Scott Marden, a US investment banker with experience of the publishing, cable and communications industries. At the very highest level, Mr Frank Carrubba was brought on to the five-member Philips management board from Hewlett-Packard to look after technology.

The fact that Mr Eustace, an Englishman and former finance director of British Aerospace, sits down in Eindhoven every quarter to present the company's results – in English – is an indication of just how far Philips has come from its days as the most insular of Dutch multinationals.

This imported talent, which includes a number of Dutch newcomers, now fills many of the crucial positions in the company and exercises considerable influence over a venerable member of the corporate establishment. In the end Philips' capacity for innovation, likely to be generated by this talent, as well as the quality of its product range will be as important in determining its future as the breadth of its financial resources.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

No evidence of a credit crunch in Japan

From Mr Brian Rose.

Sir, While the FT deserves praise for its excellent coverage of the Japanese economy, your report, "Japan's credit crunch threatens anaemic recovery" (August 12), misses the mark. Although lending by the banks included in the Bank of Japan's statistics is indeed falling, there is no evidence that this is the result of a "severe credit crunch". If a US-style credit crunch (which, by the way, did not prove fatal to the economic recovery there) did indeed exist, we would expect the gap between banks' cost of funds and their lending rates to widen, as well as a surge in their holdings of government bonds.

In fact, these figures have shown little change. Most complaints about banks' reluctance to lend have come from small business owners, many of whom face negative cash flows and are trying to borrow in order to stave off bankruptcy. This is not the type of borrower most banks seek out even in the best of times. These borrowers seem to be showing up not in the Bank of Japan's statistics but in the National Tax Agency's. Some of the top income tax payers in Japan last year were owners of financing companies specialising in high-risk loans, at interest rates often exceeding 20 per cent a year.

We should also not forget the important role in credit creation of government financial institutions during the current recession. In 1993, they increased their total loans and discounts outstanding by Y11,800bn (about US$118bn). If we add in the Y3,700bn increase in corporate straight and convertible bonds outstanding, it becomes clear that bank lending is not the only means of credit creation in Japan.

Brian Rose,
(co-author of "The DIR Guide to Japanese Economic Statistics"),
Daiwa Institute of Research,
15-6, Fuyuki,
Koto-ku, Tokyo 135, Japan

Danger of confusion in financial markets

From Mr Christopher Johnson.

Sir, "The Bank of England yesterday warned that unless base rates are increased *in the next few months* [my italics] the government could fail to meet its target of reducing inflation to a 1-2.5 per cent range by the end of this parliament" (front page, lead story, August 3).

This report covered the publication of the Bank of England *Quarterly Inflation Report*. Yet nowhere in the report itself did these words appear. Its conclusion was: "If official interest rates were to remain unchanged *over the next two years*, then it is *probable* that inflation would gradually rise to a level above the mid-point of the target range" (my italics again).

Which has the more authoritative status, the text of the *Inflation Report*, or the warning given to the press interpreting it? The Bank of England risks creating confusion in financial markets by giving an interpretation to its own words which goes well beyond their meaning as written. It would have been helpful had your reporters at least drawn attention to the written conclusion of the *Inflation Report*, so that readers could have drawn their own conclusions from the contrast between the two.

If the Bank's "warning" was to be taken seriously, it should surely have been written into the *Inflation Report* conclusion. If the Bank does not recommend a rise in rates within the next few months, it can point to the written text; if it does, it can point to the warning. It is a bit too like the old system of nods and winks which was supposed to have been replaced by the "new policy of openness", with the report at the centre of it.

Christopher Johnson,
39 Wood Lane,
London N6 5UD

Roles that World Bank and IMF must give up

From Mr Doug Hellinger.

Sir, Coinciding with the recent 50th anniversary of the Bretton Woods conference, some 70 citizens' organisations in the US launched the "50 years is enough" campaign to hold the World Bank and International Monetary Fund accountable to people whose lives they affect across the developing world. The campaign is working with similar coalitions around the globe.

Unfortunately, both John Williamson ("Rules needed for a new age", July 8) and Michael Prowse ("Private view of a public motivator", July 18) have mischaracterised the US campaign and misrepresented its positions. We are not calling for the abolition of the Bank, as they suggest. We do strongly recommend cutting its resources and responsibilities so as to reduce its power and the damage it causes. The campaign also agrees with many analysts that the IMF should get out of determining development policy.

Furthermore, Williamson suggests that the members of our campaign are not dedicated to "helping poor countries catch up with rich ones and assisting former centrally planned economies to make the transition to a market economy", two supposed goals of the Bretton Woods institutions. Quite the contrary.

It is World Bank and IMF adjustment programmes that have led to increased poverty, widened the gap between the rich and the poor, gutted local productive capacity and accelerated environmental degradation in most of the some 75 countries in which they have been imposed. We say there must be a better way. We believe that economic policy reforms must support the productive activities of the poor (particularly women), stimulate greater local self-reliance, increase workers' rights and wages, and enhance broad-based sustainable food production. Our platform, which apparently neither Williamson nor Prowse has read, also calls for a shift away from large-scale infrastructure projects that displace millions of people in favour of smaller, resource-conserving investments.

But, more importantly, the road of change must be paved by the people themselves, who should be left to determine the direction and pace of their own economic future. If these are "strident" demands, as Prowse suggests, so be it.

Doug Hellinger,
The Development GAP,
executive committee member,
US 50 Years is Enough Campaign,
1025 Vermont Avenue, NW 3rd Floor,
Washington, DC 20005,
US

Cross-border banking

From Mr John Bertrand.

Sir, I read with interest articles on payments and settlement systems by Peter Norman and John Gapper (Economics Notebook, August 8; "What to do when Chaps can't cope", August 9). Reading Chapter VIII of the BIS's recent annual report would show that increasing volumes and values in the international payment systems are coming from banks of all sizes, not just leading clearing banks in the various markets.

One of the primary reasons Royal Bank of Scotland and Banco Santander created IBOS (InterBank On-Line System), the cross-border payments and banking system, was to address the lack of direct account-to-account processing for all banks, not just clearers. Providing such efficient services greatly reduces any likelihood of systematic failure.

Industry initiatives along the lines of IBOS are representative of the type of response the banking industry should advance and embrace, and mitigate the need for regulatory action. As virtually everything today is tradeable, delivery v payment is the backbone of non-cash settlement. This is well covered by the Group of 30 recommendations. Cash should be similarly treated. By being able constantly to check to ensure funds are available and accounted for at the time of trade, the financial world would be safer than at present.

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FINANCIAL TIMES

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Case for Aids vaccine trials

As researchers, epidemiologists, and patients returned this weekend from the 10th international Aids conference in Yokohama, the mood could not have been gloomier. The disease is spreading; none of the available drugs has proved particularly effective; and prospects for a vaccine, uncertain at best, have been put back by US unwillingness to initiate trials of those that have been developed.

The most disheartening news is the epidemic's continuing rapid acceleration in Africa, home to 60 per cent of all people infected with HIV, the virus which causes Aids, as well as in Asia. Three million more people have been infected over the last 12 months, making a conservative total of 17m. In parts of Uganda, Aids-related diseases account for half of all deaths. Infections have tripled in India since 1992 and risen tenfold in Thailand since 1990.

Meanwhile, the ability of doctors to deal with the virus appears to be deteriorating. At Yokohama, clinical data were put forward on treatments that might help against the opportunistic infections that afflict Aids patients. But the confirmation that the drug AZT is incapable of slowing progress to death in non-symptomatic, HIV-positive patients means there is no proven effective treatment for such people.

Little is in the pipeline to take AZT's place. Without new medicines to test, patients are being urged to combine the existing ones. Whether these will be effective or practical is open to doubt. In any case, most patients in industrialised countries already have difficulties paying for treatments which are individually expensive. Taken simultaneously, they would be exorbitant.

Developing countries

If such drugs are too dear for patients in rich countries, they are well beyond the means of most HIV-positive and Aids patients – those in developing countries. A year's treatment with AZT costs about $2,500. Many African countries spend less than $10 a head on health. Public health campaigns involving greater use of condoms, clinics for sexually-transmitted diseases, education and counselling are also beyond the means of most African nations.

While efforts to boost condom use and public education must be stepped up and given greater support by aid donors, they can only provide a partial answer. The best solution in the long term will be a vaccine. Experimental injectable versions are available. The only way of testing to see if they work and are safe is through large-scale trials. Delegates, particularly from Africa, pleaded last week for such studies to be started. Yet the vaccines they want to test have just been rejected in the US. The American authorities were unconvinced the vaccines could outwit HIV, and believed the risks involved outweighed the benefits. These risks are considerable: volunteers could adopt more risky behaviour in the mistaken belief they were protected from HIV; they could even be infected by the vaccine itself.

Desperate dilemma

The American decision set back Aids vaccine development in the US, possibly by three years. This poses a desperate dilemma for the World Health Organisation, which had been planning to co-ordinate vaccine trials in Brazil, Thailand and Uganda.

The simple case for proceeding with trials in developing countries is that this would be in the best interests of their people. The cost and impracticality of likely alternatives makes a vaccine the only realistic solution. While it would be desirable if the US authorities overcame their objections to the vaccines in question, there can be no denying that the risk-reward equation is different in America. Not only is the incidence of the disease lower than in many developing countries, but drugs companies might come up with a way of controlling it through medicines that would never be affordable in the poorest countries.

It would be out of the question to contemplate a standard sequence for trials of new drugs that started with animals and moved on to Africans, before finishing with Americans. But by virtue of its incidence, Aids is a special case. Individual participants in any trials must be fully informed of the risks. This said, the threat faced by the people of developing countries makes those risks worth running.

The deciding factors

It may, so far, be a voteless UK recovery, but it has certainly not been without profit. The healthy earnings figures seen in this reporting season will not excite the electorate, but they highlight the unusually buoyant state of the UK company sector. Given what came before, the divergence between public and corporate sentiment is somewhat to be expected. Whether it continues will depend less on how much cash companies have and rather more on how they decide to spend it.

The UK corporate sector's record cash surplus in the first quarter of 1994 crowned a rapid turnround in company balance sheets since the recovery began. This was achieved largely through heavy repayment of debt, made possible, in turn, by the prior resilience of profits. Non-oil profits, currently 28 per cent of onshore gross domestic product, never fell below 25 per cent in the 1990-92 downturn compared with troughs of about 18 per cent in 1974-75 and 1980-81.

How was this achieved? Companies reacted unusually quickly to the onset of recession, running down stocks and labour so as to maintain profit margins, which were given support anyway by the relatively shallow slump in output. As a result, sterling unit labour costs rose by a total of only 12 per cent over the 1990-91 period compared with a cumulative rise of one-third and 57 per cent respectively at a comparable stage in the past two downturns. Continued falls in manufacturing employment and subdued wage growth have helped build profits further as the economy has picked up, though they have done little to raise consumer spirits.

High margins

Those at the receiving end of that disquiet, notably retailers, have found their profit margins under pressure. But for the economy as a whole margins are high by historical standards. This is one reason why the fear that companies will make up for rising commodity prices by raising prices might be misplaced. Another is that the cost of such materials accounts for a mere 8 per cent of UK companies' direct costs. If companies choose to raise prices nonetheless, that would strengthen the case for reining in the recovery with a rise in interest rates. But its long-term sustainability will depend just as critically on how companies decide to spend the cash they already have.

Cash-rich companies can do any (or all) of three things: raise dividends, engage in mergers or takeovers, or invest in real assets.

Dividend growth

As noted in the latest Bank of England Quarterly Bulletin, a higher percentage of companies were willing to reduce dividends to pay off debt in the past recession. Nevertheless, this had little impact on overall company sector dividend payments, which were at a 20-year high of 3.6 per cent of GDP in 1993. The financial markets seem to expect even higher payouts in future. Gallup's latest institutional investors' survey reports expected all-share dividend growth of 8.5 per cent in 1994 and 8 per cent next year, compared with the 6 per cent expected for both years when January's poll was taken.

Mergers and acquisitions have picked up somewhat over the past year. But, while a new takeover boom would distract companies' attention from investing in higher capacity, it need not prevent it. A more important barrier, some argue, is the high rates of return which companies demand of their investment projects. Investment has yet to rise significantly in this recovery: manufacturing investment was 3.7 per cent lower in the first quarter of 1994 than it was in 1993. As a percentage of GDP, investment may appear to have held up better during this recession than at the start of the 1980s, but the recent sharp fall in the price of investment goods makes it more difficult to find a clear contrast. Certainly, other investment expectations are as subdued as they were in the middle of 1983, at precisely the same stage in that recovery.

Conditions then were ripe for the seven-year upturn in investment which began a few months later. With company profitability much higher now than in the early 1980s, it is difficult to believe that the same factors favouring investment will not reassert themselves. In the meantime, the chancellor must focus on ensuring that the factors favouring inflationary growth do not.

Just winning is not good enough

Damian Fraser says the political system – as well as the candidates – are under scrutiny in Mexico's elections

Mexico's governing Institutional Revolutionary party (PRI) has won 10 consecutive presidential elections since it was founded in 1929, making it the longest continuous-ruling party in the world. On Sunday, it is expected to win an 11th – extending its run in power until the next century.

The opposition still cherishes hopes of a last-minute victory. But the PRI's lead is so great in national opinion polls that its supporters are more worried about the size of presidential candidate Mr Ernesto Zedillo's victory, the threat of protests over the result, and whether – once in office – Mr Zedillo, a former central bank official and budget minister committed to pro-market economic policies, can tackle Mexico's pressing political and economic problems.

Ms Nancy Belden, a respected US pollster who has just completed a survey that puts the PRI 27 percentage points ahead, says: "The lead is so commanding that it would take a rather large turn of events to see someone else come ahead." Unless that happens in the next few days, the PRI will win more than half the seats in the House of Deputies, the lower house, and three-quarters of those in the Senate.

The PRI has won popularity despite growing economic and social unrest. Ms Belden's poll shows widespread voter dissatisfaction with the economy, and a general conviction that poverty, pollution, crime and corruption are stagnant or worsening. But voters do not believe that the opposition is better placed to resolve these problems than the governing party.

Such views reflect poorly on the campaigns of the main opposition parties. Mr Diego Fernández de Cevallos, of the centre-right National Action party (PAN), at one point looked to be seriously challenging the PRI after a strong performance in a television debate with Mr Zedillo. But soon afterwards, he almost disappeared from public view for nearly a month – the official explanation was that he was briefing himself – and his party has been criticised for not publishing a detailed platform, preferring to concentrate on a few broad themes and attacks on the government. Support for the leftwing Party of Democratic Revolution, led by Mr Cuauhtémoc Cárdenas, has remained weak.

The electorate may be sticking with the PRI in part because of the political turbulence this year, which appears to be making voters more, rather than less, afraid of change. At the beginning of the year, a Zapatista peasant revolt in Chiapas, ostensibly seeking the overthrow of the current president, Mr Carlos Salinas, was controlled easily by government troops. But it highlighted the extreme poverty in which many Mexicans live and the authoritarian nature of PRI rule.

In March, the assassination of PRI presidential candidate Luis Donaldo Colosio heightened political tensions still further and led to divisions within the ruling party over the nomination of Mr Zedillo.

More significant reasons why the PRI is apparently defying political gravity are its organisation (which is far superior to rivals'), seemingly unlimited campaign resources (much of it from business) and favourable television and radio coverage (much of which is owned by PRI supporters). Although this campaign is more equitable than previous contests, the PRI is set to spend more than $200m on the presidential and congressional races – far more than all the opposition parties combined.

While such advantages are expected to enable the PRI to win the election, party officials admit that victory will not be enough: the voters, and at the very least the centre-right PAN, will have to be convinced that the election is fair. Otherwise the opposition will almost certainly organise street protests as it did after the 1988 presidential elections, threatening the stability of the political system.

"We are at a turning point in Mexico's future. We either have to have democracy or there will be civil conflict," says Mr Javier Estrada, a 34-year-old teacher and delegate at a Zapatista-organised conference on democracy in Chiapas last week.

Winning legitimacy will not be easy. The memory of the 1988 election – when computers processing the results mysteriously broke down with the opposition ahead on early returns – still haunts the country. According to the Belden poll, 30 per cent of Mexicans believe there will be "considerable" or a "great deal" of fraud on Sunday.

The PRI and many independent observers (including from the UN) counter that the electoral system has been completely reformed since 1988. The government has handed over its supervision to six independent scrutineers, approved by all the main political parties. These will be complemented by about 30,000 independent observers, including some from overseas. Exit polls and results from a representative sample of early returns will be released to reduce further the scope for fraud. Mr Enrique Calderon, a senior observer, says: "Every step in the election process is now very explicit. We can detect if there is any rigging."

Nevertheless, problems may remain in rural areas where there is a tradition of ballot-rigging and, if previous elections are a guide, there will be much debate over whether irregularities that are found are mistakes or fraudulently intended.

An election that was considered fair at home as well as internationally would, however, greatly help Mr Zedillo in his efforts to maintain political stability. He could claim, unlike President Salinas, who was elected in 1988, that he had a democratic mandate for his policies, and argue that the PRI had made a decisive step from being the electoral arm of an authoritarian state towards being a democratic party.

But a clean election may not be enough to win over the growing number of dissident political organisations opposed to the PRI and, more importantly, the political system that the party dominates. As last week's Zapatista-organised convention indicated, the left wing in Mexico, though a small minority, is willing to use public protests as a weapon against the government.

"There are too many signs that the political *modus operandi* that maintained stability in Mexico from 1929 no longer works," says Mr Guillermo Valdez, political analyst with the Mexico City-based consultancy, GEA. "You have more and more political forces not controlled by the PRI that are looking for political power."

Mr Zedillo has indicated that he will respond to the new political pressures by pushing through further democratic reforms. He has promised to decentralise power to the regions, to give the judiciary more independence from the executive and to let Congress have more influence in drawing up legislation. Mr Zedillo also says he would seek to put the PRI on a par with other political parties by distancing himself from its internal affairs and encouraging it to choose candidates for elective office democratically.

If implemented, such changes would open up more opportunities for Mexicans to participate in politics. But they could also weaken the power of Mr Zedillo: the predictability of Mexican politics in the past has depended on a president's commands being put into practice.

Mr Zedillo could strengthen his hand, however, if he could engineer a return to strong economic growth and provide jobs for the approximately 2m Mexicans who enter the workforce every year. Over the past couple of years, Mexico's economy has been stagnant, as domestic industries have suffered from international competition and high interest rates, pushed up by recent political uncertainty.

Mr Zedillo has vowed to raise infrastructure spending by 25 per cent to increase economic growth. He and his advisers are confident that capital inflows brought in by the North American Free Trade Agreement will boost growth over the long term.

But the effect of Nafta is double-edged: it is leading to a process of economic restructuring, with inefficient companies closing, but the lost jobs are not yet being absorbed by new arrivals. And a continuation of pro-market economic policies is unlikely in the medium term to improve Mexico's uneven distribution of income.

Mr Zedillo is likely to have a difficult task steering Mexico towards the status he covets for the country – to be a successful part of the industrialised world – even if he wins Sunday's election cleanly and legitimately.

Peter Norman says the UK Treasury's independent economic panel is eminently disposable

Wise-eyed but legless

The UK Treasury's panel of independent forecasters was probably doomed to ignominy the moment some bright spark dubbed its members the "wise men".

But not even the most hard-boiled cynic, versed in the ways of economists and government, could have supposed that this group would so quickly lose all influence over UK economic policymaking.

True, the group added fleetingly to the gaiety of the nation last summer, when one of its number – Professor Tim Congdon – triggered an unseemly squabble among its members about who produced the best forecasts. Since then, however, the wise men's panel has become something that would be best forgotten.

This is not to denigrate its individual members. All of the original seven – Andrew Britton, director of the National Institute of Economic and Social Research; Congdon, managing director of Lombard Street Research; David Currie, the head of economic forecasting at the London Business School; Gavyn Davies, chief UK economist for Goldman Sachs in London; Wynne Godley, professor of applied economics at Cambridge; Patrick Minford, professor of applied economics at Liverpool; and Andrew Sentance, economics director of the Confederation of British Industry – have their merits and have, over the years, contributed to the diversity of economic debate in the UK. This observation is just as true since the panel has shrunk to six from seven, following the departure of Sentance to work with Currie at the LBS last December.

But the experiment of putting a mixed bag of economists together with the Treasury's forecasters three times a year to prepare reports on the current position and future prospects of the UK economy has added little to the sum of human knowledge. If anything, it has curbed economic debate by turning true iconoclasts such as the monetarists Congdon and Minford and the neo-Keynesian Godley into halfway establishment figures.

Things which never would be missed

This, no doubt, was at the back of the mind of former chancellor Norman Lamont when he created the group in late 1992, as part of the moves to patch up an economic policy for Britain after the fiasco of sterling's exit from the European Monetary System. At that time, the Treasury's reputation for policy-making was at an all-time low, and that of its forecasters little better.

The idea of the forecasting panel was a minor stroke of genius. The panellists could be flattered by being told that they would provide policy recommendations: they never were to meet Lamont but have met Kenneth Clarke twice, although to what effect no one knows. The innovation could be sold to the public as an example of government openness. But most attractive of all, the panel's forecasts could be shown to be as fallible as the government's.

The press played along with the wheeze. "Treasury calls in a clutch of flamboyant forecasters" was the breathless headline in the Financial Times on the day after Lamont's announcement. For a while, no piece of economic news could be complete without one or the other – or preferably all seven – adding their two penn'orth of comment.

Such celebrity would have been difficult to sustain at the best of times. But the decline of the group's influence has undoubtedly been hastened by the intervention of the unknown scribe who coined the phrase "wise men". This was bound to lead to a slow seepage of authority and prestige in a country so hostile to intellectuals as Britain.

The idea of "wise men" also had a faintly Teutonic air. And, indeed, Germany has a panel of "wise men" who produce a report on the economy for the government once a year. But at least they have a role to play in the carefully choreographed creation of a national consensus on wage setting and the state of the economy.

The routine is that Germany's leading economic research institutes produce a forecast for the following year in October. Their wise men follow up with a thicker tome in November which usually echoes the points raised in the institutes' report. All other forecasters then fall into line. By the time the government produces its annual report on the economy early in the new year, wage bargainers know how much pay increases should be.

The contribution of Germany's wise men to the nation's welfare is not great, but it is significant. It is certainly more than the Treasury's panel can hope to achieve.

The only consolation to UK taxpayers from present arrangements is that they will not break the budget. The panellists each receive £125 plus expenses for attending meetings. If nothing else, the "wise men" come cheap in a Whitehall riddled with highly paid consultants.

OBSERVER

Unison on stage

Britain's trade unions are not normally fertile sources for stories of sex, money and the media which is probably why Unison, the public services union, has decided to sponsor one instead.

The union has given £15,000 to back *Abducting Diana*, a satirical play by Dario Fo about a woman millionairess media tycoon who has a penchant for picking up young men for afternoon sex.

In the past Unison has concentrated more on sponsoring high-class "agit prop" – that's agitational propaganda to you and me. However, it is keen to move away from "overt socialist themes" and in March tried to sponsor a football game between Plymouth Argyle and Barnet.

Abducting Diana, which opens at the Edinburgh festival tomorrow, seems assured of more success. But in case Unison members find it too heavy going they can reserve a place for themselves at the highlight of the summer season – the annual TUC conference, which starts a short run at Blackpool's Winter Gardens three weeks later.

Last man in

■ There is something rather reassuring about the sight of 59-year-old Barry Pearl leading Winterflood Securities into the gilt-edged market this morning.

After all, Pearl was the last gilts jobber to quit the floor of the stock exchange after Big Bang. Pearl soldiered on alone, making prices at his podium by telephone or face-to-face with the occasional broker who wandered by, long after his competitors had departed the stock exchange floor for their high-tech skyscrapers. But in 1988 a storm cut off all lines of communication, forcing him to retreat up into the office and take his place in front of a screen. Since then, he has never looked back.

Len's last word

■ "As global as business itself" gushed a recent corporate ad for UBS, Switzerland's largest bank. Not so, according to Len Harwood, who resigned as head of debt capital markets at UBS in London last month.

Indeed, Harwood blames his departure on UBS's lack of global presence. "The big ticket deals these days go to firms with a global set-up," claims Harwood in the latest issue of Euromoney magazine. "I didn't see UBS becoming a global player." Tough news for one of the few banks in the world still sporting a triple A credit rating.

Then again, Harwood's view of UBS may have been coloured by the arrival from Bankers Trust, in December, of John Gianotti, who

'I was at Woodstock but I can't remember which one'

was appointed over his head to run origination and derivatives.

Whatever the reason for his exit, the man once dubbed the "Billy Graham of the euro-commercial paper market" doesn't expect to be out of work for long. His passion for the medium-term note market, in particular, remains undiminished judging by his personalised car number plate – A1 MTN.

Foggitt due

■ Bill Foggitt, the Thirsk weather sage whose accuracy at forecasting easily outshines that of Punxsutawney Phil, the Pennsylvania groundhog, is basking in the prediction he made of Britain's hot summer.

After the hottest July since 1983, he said, the rest of August would produce a mixed bag of rain, sun and thunderstorms. Thirsk has had two thunderstorms in the past fortnight and more are on the way, said Foggitt, a thunderstorm enthusiast. He can recall one storm on August 29 1930, the day Princess Margaret was born, that lasted the whole night.

While that was the longest, the most violent he can remember was in September 1965, when a flash of lightning put his telephone out of order. "I would have been killed if I'd been there at the time," he said. Was that a rumbling in the distance? No answer. Foggitt had hung up.

Saucy export

■ Goodbye, Chicken Kiev. Hello, mushy peas. For the next seven days Ukrainians will be able to pay $50 a head to be subjected to the best of British cooking at Kiev's new Red Fort restaurant (old apparatchiks welcome).

When it comes to promoting British exports to Ukraine, Britain's "outstanding cuisine" is hardly the number one target. High-tech engineering gadgets, and British literature, yes. But British food? Not only can most Ukrainians not afford British prices, but food is one of the few commodities that Ukraine is rather good at exporting.

Quite why Britain's diplomatic machine feels it is worth promoting British food exports to one of the world's richest agricultural countries is a bit of a mystery. However, a BBC TV chef, Colin Capon, plus a plane load of "ecologically clean" English food have been flown in, with Tesco's Ukraine distributor picking up the bill. However, the Foreign Office's "duty to promote every aspect of British life" in its bid to win over Ukrainian tummies did not extend to the wine on offer at last weekend's launch. It was French.

Flaps up

■ The news that the US state department has forbidden American diplomats from using domestic Russian airlines – following recent similar orders by Britain and Canada – resurrects the following, slightly foxed tale:

Boris: Why so depressed, Ivan?

Ivan: I'm really worried. I'm flying to Vladivostok, and there've been so many Aeroflot crashes lately.

Boris: Oh come, look on the bright side. Your chances of being killed on the roads are much higher. For instance, did you hear of that extraordinary crash, involving poor Volodya?

Ivan: No, what happened?

Boris: He was driving along on an open road, and what do you think? An Aeroflot plane fell out of the sky...

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Coalition hopes Berlusconi and Bossi talks will calm markets

Italy's leaders display united front

By Andrew Hill in Milan

Feuding leaders of Italy's ruling coalition made a concerted effort over the weekend to show they had patched up their differences at a summit between Mr Silvio Berlusconi, the prime minister, and Mr Umberto Bossi of the Northern League.

Since the March general election, blunt-talking Mr Bossi has repeatedly criticised Mr Berlusconi for political misjudgments. Fears of a split in the coalition have contributed to tension on Italian financial markets in the last fortnight weakening the lira.

But late on Friday, Mr Berlusconi and Mr Bossi met at Arcore, the prime minister's villa near Milan, and – fuelled by dishes of pasta into the early hours of Saturday – thrashed out an armistice.

The two smiling, shirt-sleeved leaders invited television cameras to the villa on Saturday afternoon for a session of back-slapping and ribaldry aimed at demonstrating that they were now the best of friends.

"Today we've talked about serious things, about our commitments to [government] programmes," said Mr Bossi. "This is certainly not the moment to be rash ... The government will last a long time, there's no doubt about that."

Mr Berlusconi added: "The [solidity of the] government has really never been in question: it's only considered unstable by outside observers."

The government hopes that soothing television interviews given by Mr Berlusconi on Friday night and the friendly banter of Saturday will inspire Italian markets when they reopen tomorrow after a holiday weekend. Last Thursday's unexpected decision by the Italian central bank to raise interest rates not only failed to strengthen the lira on Friday, but seemed to contribute to further weakness on bond, currency and equity markets.

Italian observers seemed sceptical about the Bossi-Berlusconi ceasefire, however. An editorial yesterday in Il Giornale, the daily newspaper which is part of Mr Berlusconi's business empire, warned that the government had only maintained popular support because Italians were terrified by the memory of the corrupt old political regime. "But what will happen the day those memories dim?" wrote the editor, Mr Vittoria Feltri. "Take my advice, Cavaliere [the nickname for Mr Berlusconi]: instead of courting popularity, try governing."

Greens save trees at expense of turbos

By Andrew Hill in Milan

Frantic shuttle diplomacy, riot warnings, conspiracy theories, resignation threats and emergency legislation – a normal holiday weekend in Italy.

The object of such frenzied activity was not last week's turmoil on bond, currency and stock markets, but Friday's decision by Fia, the world motor sport authority, to cancel the 65th Italian Grand Prix.

The decision was supposed to end uncertainty caused by a row between tree-hugging environmentalists and road-hogging Formula One drivers over modifications to the Monza circuit, set in an ancient royal park near Milan. Instead it has set off a new wave of controversy.

Environmental groups have been protesting against proposals to fell more than 100 trees and extend the gravel-filled safety lane at a fast right-hand bend of the track for the September 11 race. Drivers called for the improvement after the accident which killed Ayrton Senna at the San Marino grand prix earlier this year.

Over several weeks, local and national authorities dithered about whether trees or turbos should have precedence, until Friday when Fia decided it had had enough.

Environmentalists – standing guard over the trees lest fanatical motor sport "tifosi" decided to take an axe to them – seem strangely subdued by the decision.

And while the greens are reluctant to declare victory, advocates of the grand prix are certainly not going to concede defeat. Mr Aldo Moltifiori, mayor of Monza, has resigned in protest, alleging a conspiracy between Ferrari and Fiat (which controls the sports car maker) to take the grand prix to the company-owned track at Mugello in Tuscany.

On Saturday, a delegation headed by Mr Gianni Letta, chief of staff to Mr Silvio Berlusconi, the Italian prime minister, flew to Cannes to try to persuade Fia to change its mind. Meanwhile, Mr Umberto Bossi, head of the Northern League, emerged from his all-night summit with Mr Berlusconi promising that an emergency decree would save the grand prix.

According to Mr Moltifiori, direct and indirect earnings from the grand prix amount to L70bn ($44.87m) a year.

He blames Mr Letta for ending Monza's hopes by asking Fia to agree to the installation of a new chicane before the bend, an alternative which the sport's authorities had already rejected. "A government which can't manage to stage a grand prix ought to give up and go home," Mr Moltifiori said on Friday. Fia has so far stood by its decision.

This holiday weekend Monza was completely closed and almost deserted. A policeman on a bicycle, who was stopping cars from entering the historic centre on Friday, said he was disappointed: "After all, Monza is known worldwide for its grand prix, not for its trees."

Only the gatekeeper at the Monza circuit expressed anything like an inflammatory reaction to the decision. "There's only one thing for it now," he said with a shrug. "Revolution."

Profits reveal which companies were winners at the World Cup

Soccer tournament boosts Guinness beer sales figures

By Michael Cassell in London and Patrick Harverson in New York

While this year's World Cup may be only a fading memory for football fans, the tournament continues to provide a warm glow for many companies which were involved behind the scenes.

A string of international businesses from airlines and hoteliers, to television manufacturers and brewers have begun to disclose the scale of profits they made from the competition.

The main British winner appears to be Guinness. The drinks group, which was the official brewer to the Irish World Cup team, believes there was a fivefold increase in its beer sales during last month's competition.

Brewers were also among the main beneficiaries in the US. According to retailers in Orlando, where Ireland played two of their four games, local sales of imported beer jumped 365 per cent in June, with the Dutch brand Heineken leading the pack.

Airlines operating out of principal European centres also fared well. British Airways, which last week reported a 40 per cent increase in pre-tax profits for the first quarter of 1994, said the good performance continued through the weeks preceding and during the world cup.

American Airlines, the official carrier for the competition, said that compared with the year before it carried an extra 70,000 people across the Atlantic in June, followed by an additional 59,000 in July.

Virgin Atlantic, the airline owned by Mr Richard Branson, reported excellent business in June and July, already one of its busiest periods. It said its aircraft into Florida had been "absolutely packed".

Despite these increased passenger loads, the US business bonanza predicted by the World Cup's organisers did not materialise. However the tournament did produce its share of US winners off the field.

Nike said retailers were reporting strong interest in its soccer boots during and after the tournament.

Another clear winner was W H Smith, the UK newsagency group which operates airport and hotel gift stores across the US. Buoyed by demand for World Cup merchandise from visiting fans, sales at the stores were $3m during the World Cup, three times the average for the Super Bowl championship of American Football, said W H Smith.

For the television broadcasters the 52 World Cup games were a success by the standards of previous viewing figures for soccer in the US, but the two networks which showed the tournament – ABC and ESPN – were unable to profit from the better-than-expected ratings because all the advertising time was sold before the World Cup began. The US Spanish-language television network Univision, however, did say it earned about $24m in advertising revenues during the US World Cup compared with just $10m from the Italy World Cup in 1990.

Nato starts search for new leader

Continued from Page 1

one of the greatest [personalities] of German and international politics." Mr Malcolm Rifkind, UK defence secretary, said he was "a great servant of Nato and one of the bravest men I knew."

Early indications were that any possible successor was unlikely to be German since Nato has traditionally rotated its top job among member countries. For the same reason Britain is unlikely to provide a candidate as Lord Carrington was the secretary-general before Mr Wörner.

Whoever is chosen will have to deal with the issues of Nato membership for eastern European countries, following the "partnership for peace" programme initiated by Mr Wörner. Nato is also likely to be involved in rapid reaction forces outside its traditional areas of operations in Europe, and this will need delicate diplomacy.

If no solution to the Bosnian war is found before the autumn, Nato may have to deal with a resumption of full-scale hostilities there.

THE LEX COLUMN

Breaking the link

Since the last time UK equity yields fell below those on index-linked gilts was before the 1987 crash, it is not surprising that the current 10 basis point premium enjoyed by the latter is attracting attention. But direct comparisons are risky. The premium is smaller than it was in 1987 when equities looked seriously overvalued on other yardsticks too. The index-linked market, which is tiny in proportion to equities, is also notoriously lacking in liquidity. Though real yields of close to 4 per cent look cheap, they may not in practice have much room to fall.

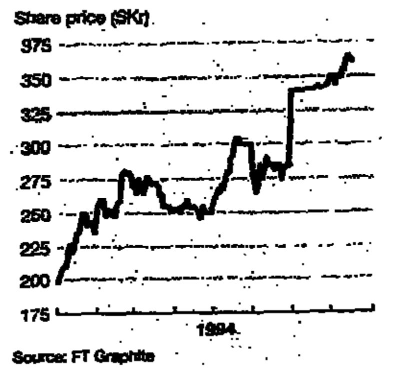
Marketmakers report a modest shift into index-linked paper by UK institutions anxious to match long-term assets with liabilities. But this demand has been readily matched with supply from the Bank of England. If it believes in its own inflation forecasts, index-linked gilts are obviously a cheap means of funding. They are also an alternative to the fixed-rate market where borrowing conditions remain difficult. Also it would not be surprising to see additional index-linked borrowing from utilities like water companies, which have high capital spending requirements and revenues linked to the retail price index.

Pressure of supply may thus be forcing the index-linked market to decouple from equities. The pace of economic recovery also points to upward pressure on real interest rates. That need not worry equities as long as earnings growth is fast enough to allow dividends to rise in real terms. If that prospect were undermined, for example by higher base rates, it would be much harder for equities to out perform.

Charter/Esab

It is some comfort that the Swedish institutions holding out against Charter's offer for Esab object to the price rather than the principle. There is no parallel with the Renault/Volvo affair. Assuming that the level of acceptances due to be announced today falls short of its 90 per cent target, Charter must simply decide whether to increase its SKr345 a share offer. While anything over two-thirds ownership would give Charter full control under Swedish law, mopping up any sizeable minority could be less trouble in the long run.

Last week's tumble in the Stockholm market should put paid to the more outlandish assessments of Esab's worth. But the company's half-year



Source: FT Graphite

figures were undeniably impressive. If Esab's revised full-year profits forecast is right, Charter would have to raise its bid by 20 per cent to pay the same exit multiple envisaged when the bid was announced. A deal on these terms would still enhance earnings.

Yet it is not clear that Esab is intrinsically more profitable than previously thought. If economic recovery is simply coming sooner than expected, a lower exit multiple should apply. Besides, trade union statements during the bid suggest that Esab could be more difficult to manage than Charter expected. A modest increase in the offer to acknowledge Esab's improved performance and try to satisfy the recalcitrant institutions could therefore be the best way forward. Since Charter's shares are 12 per cent higher than before the bid was announced, the cost to its own shareholders of walking away would be high.

Swiss banks

The Swiss bank reporting season, which continues this week with first half results from Swiss Bank Corporation and CS Holding, remains under the shadow of the near 70 per cent fall in dealing profits announced earlier this month by UBS. The other two banks should also report lower dealing income. Indeed Credit Suisse, which is the main bank within the CS group has already announced a 35 per cent drop. To some extent such a development is inevitable since the big Swiss banks are actively involved in the bond market and carry large holdings on their balance sheets. But the Credit Suisse figures suggest UBS will stand out for the size of its decline.

While the reason for this is obscure, the SFr1bn fall in UBS' first-half trading income reveals a volatility in its earnings stream which gives pause for thought about its traditional premium rating to the sector. Through the recession UBS was helped by a relatively sound loan book and diversified sources of income. But this is a doubled-edged sword as there is now less room for bad debt provisions to fall. Lower spreads on international credits may also make it harder to boost its net interest income with the high quality lending which provided such a bulwark in the past.

In the second half, CS Holding and Swiss Bank Corporation could reap further advantage from falling provisions. At both banks last year's provisions were more heavily weighted to the second half than those at UBS. Their greater leeway to compensate for shrinking dealing income may give their shares a relative edge.

Small companies

Nearly four months ago the Stock Exchange came up with the idea of replacing the doomed USM with a new smaller companies market based around the 200-odd shares currently traded under Stock Exchange Rule 4.2 (Rule 535 (2) as was). The exchange does not like to rush things, particularly when it comes to junior markets. There is still no date for the promised consultation document and it looks increasingly unlikely that the market could be up and running by the end of the year when the USM closes its doors to new admissions.

But enthusiasts are confident the exchange is at least on the right track – towards a screen-based market, still lightly regulated but with much higher disclosure requirements – and they are not waiting. Rutherford Asset Management has just raised £19m for a new trust specialising in Rule 4.2 companies and at least one other such trust is thought to be on the way.

The managers argue that the Rule 4.2 world is attractive already. Originally operated on the basis of matched bargains there is now growing involvement by marketmakers. Trading volumes are running at a fifth of USM levels, and rising. If the proposed changes attract more interest from specialist fund managers it might at last provide an easy and cheap route for small companies to raise modest amounts of equity. There is certainly a demand. The queue of companies waiting to join suggests that, after relations became so strained during the recession, small companies are loath to rely on banks in the recovery.

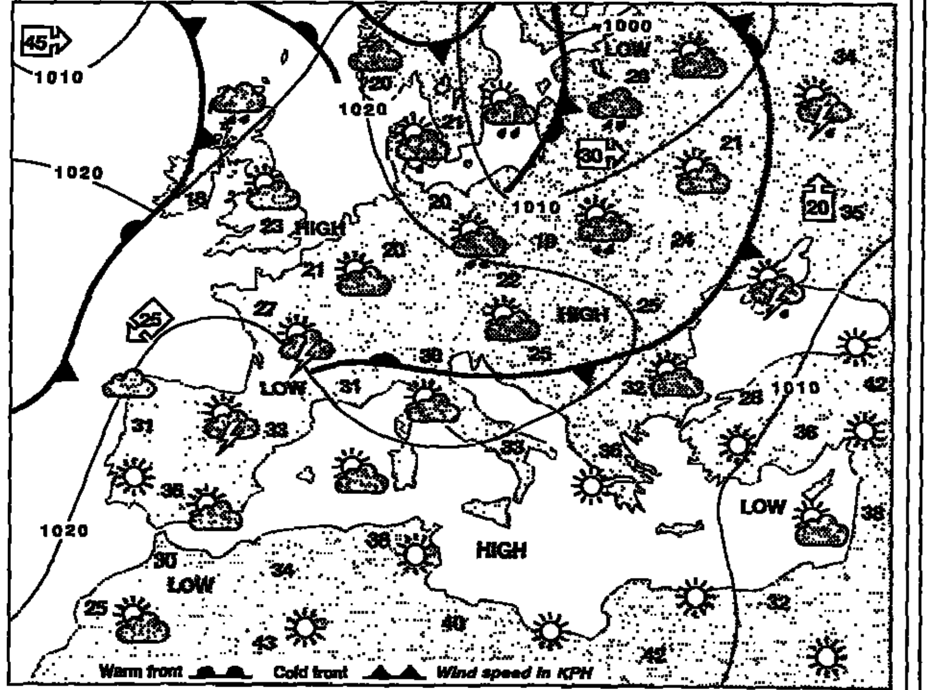
FT WEATHER GUIDE

Europe today

High pressure will dominate the Benelux, giving only light cloud and afternoon temperatures slightly below average. Along the eastern flank of the high, showers forming over the North Sea will enter Germany and Denmark and some will reach Poland. A depression over the White Sea will give rain in Finland and parts of the Baltic states. A cold front associated with this depression will mark the boundary between cool air over north-west Europe and warm air south of the Pyrenees and across the Mediterranean. It will be hot and sunny in southern Italy, Greece and Turkey with some temperatures well above 35C. A few thunder storms will develop along the front, mostly over the Ukraine and Russia.

Five-day forecast

The Mediterranean will stay warm and sunny. Low pressure will develop over France, pushing warmer air northwards. Later this week, thunder showers will form over France and then move into central Europe. Conditions will temporarily become settled over Scandinavia, but only in the southern regions will temperatures exceed 20C. Western Europe will become very unsettled in the middle of the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	31	Caracas	fair	28	Faro	sun	27	Madrid	fair	34	Rangoon	fair	32
	Celsius		Belfast	rain	18	Cardiff	fair	20	Frankfurt	fair	23	Majorca	fair	34	Reykjavik	shower	13
Abu Dhabi	fair	44	Belgrade	fair	26	Casablanca	fair	25	Geneva	fair	26	Malta	sun	36	Rio	sun	21
Accra	fair	29	Berlin	shower	22	Chicago	sun	27	Gibraltar	fair	30	Manchester	cloudy	20	Rome	fair	32
Algiers	sun	34	Bermuda	thund	32	Cologne	fair	21	Glasgow	rain	16	Manila	fair	32	S. Frsco	fair	25
Amsterdam	fair	20	Bogota	fair	19	Dakar	shower	30	Hamburg	shower	21	Melbourne	sun	12	Seoul	rain	34
Athens	sun	36	Bombay	cloudy	30	Dallas	shower	34	Helsinki	rain	18	Mexico City	sun	17	Singapore	cloudy	32
Atlanta	thund	32	Brussels	fair	20	Delhi	fair	32	Hong Kong	shower	30	Miami	thund	31	Stockholm	cloudy	20
B. Aires	fair	13	Budapest	fair	22	Dubai	sun	45	Honolulu	fair	32	Milan	fair	30	Strasbourg	fair	24
B.ham	fair	20	C.hagen	shower	21	Dublin	rain	18	Istanbul	sun	30	Montreal	cloudy	19	Sydney	fair	21
Bangkok	fair	34	Cairo	sun	38	Dubrovnik	fair	31	Jakarta	fair	31	Moscow	cloudy	21	Tangier	fair	27
Barcelona	thund	29	Cape Town	fair	17	Edinburgh	cloudy	20	Jersey	fair	19	Munich	cloudy	21	Tel Aviv	sun	35
									Karachi	fair	32	Nairobi	cloudy	26	Tokyo	fair	32
									Kuwait	sun	46	Naples	fair	33	Toronto	cloudy	16
									L. Angeles	sun	34	Nassau	shower	35	Vancouver	sun	19
									Las Palmas	fair	26	New York	fair	26	Venice	fair	28
									Lima	cloudy	18	Nice	fair	28	Vienna	fair	23
									Lisbon	sun	26	Nicosia	sun	40	Warsaw	shower	19
									London	fair	23	Oslo	cloudy	21	Washington	fair	26
									Lux.bourg	fair	20	Paris	fair	23	Wellington	shower	12
									Lyon	fair	27	Perth	fair	18	Winnipeg	shower	30
									Madeira	fair	25	Prague	fair	22	Zurich	fair	22

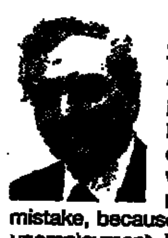
FINANCIAL TIMES

COMPANIES & MARKETS

Monday August 15 1994

MARKETS THIS WEEK

BRONWEN MADDOX:
GLOBAL INVESTOR
In spite of rallying on Friday, the US bond market remains nervous that the Federal Reserve will use Tuesday's meeting of the open market committee to raise short-term interest rates for the fifth time since February. Both bond and equity markets are in a frame of mind where none of the courses that the Fed might adopt will prove reassuring. Page 18



MARTIN WOLF:
ECONOMIC EYE
The British signalmen insist that they should be paid more for past increases in productivity. This view is a cliché of the UK economic debate. But the idea that every worker should be paid more for producing more is a damaging mistake, because it must lead to persistently high unemployment. Page 18

BONDS:
The Australian government bond market has been braced for a rise in interest rates for at least the past four months. However analysts argue that economic forces are now overwhelming any political pressure to delay the move.
Page 20

EQUITIES:
As preparations for the privatisation of Renault gather momentum, share analysts and investors are running their slide rules over the French state-owned automobile group. Page 21

EMERGING MARKETS:
Investors in Mexico's stock market are betting heavily that Mr Ernesto Zedillo of the governing party will win the presidential election next Sunday.
Page 19

CURRENCIES:
Markets will be on an interest rate alert after a sharp wake-up call last week from the Swedish and Italian central banks. Page 19

COMMODITIES:
Traders in London will be eager for the coffee futures market to open this morning because it will be the first opportunity to react to the US Department of Agriculture's report assessing the extent of frost damage to the 1995 Brazilian coffee crop. Page 18

UK COMPANIES:
Reed Elsevier, the Anglo-Dutch information and publishing group, is today expected to announced details of a compensation package for Mr Peter Davis, its former co-chairman. Page 16

INTERNATIONAL COMPANIES:
Charter, the UK industrial group, will today announce whether it will increase its £260m recommended bid for Esab, the world's largest welding equipment supplier. Page 17

STATISTICS

Companies will live with derivative risk

By Antonia Sharpe

Just over half of finance directors at the UK's top companies regard derivatives as a possible systemic risk to financial systems while 16 per cent see them as a definite risk, according to a survey conducted by Record Treasury Management, the Windsor-based currency hedging specialists.

However most believe that derivatives play an important, even essential role in the management of risk, says the survey which drew responses from 81 companies with a total market capitalisation of £182bn ($282.1bn).

A vast majority – 93 per cent – expect their use of interest rate derivatives to rise or stay the same and 84 per cent also expect their use of currency derivatives to stay the same or increase. The dominant types of derivative products are swaps and forwards or futures, although 18 per cent of respondents use specially designed derivatives.

Almost all respondents believe that disclosure is relevant but only 27 per cent believe that this should be extended to detailed reporting. Two-thirds favour reporting their use of derivatives in strategic terms only.

But respondents said derivatives should be used only as a tool to manage a real business risk and never as a means of speculation. They add that while the instruments are not a problem in themselves, they can give rise to problems when they are insufficiently understood or when their associated risks are inadequately communicated.

In the view of finance directors, the principal concerns in using derivatives are control of risk and the complexity of many derivative contracts. As a result, 89 per cent of respondents use their own treasury teams to determine the suitability of the products and 45 per cent do their own research.

A central bank watchdog is the preferred way to supervise the use of derivatives (55 per cent), followed by self-regulation (34 per cent). But only 6 per cent are in favour of specific legislation.
'Derivatives angst', Page 12

US banks have made hard reappraisals of their European operations, reports **John Gapper**

Success that comes with a smaller role

Recalling how many US banks used to operate in Europe, Mr Herb Aspbury smiles. "Colonial Bank of Waterbury, Connecticut was a $1bn asset bank, and it had a London branch. It was insanity," says the man who is rebuilding Chemical Banking's European arm from the attrition it suffered in the early 1990s.

There are many fewer US banks in Europe now, but those that remain earn far more. As the big money centre banks such as Chase Manhattan, Citicorp and Chemical have reported half-year results, they have shown the transformation of European operations which used to be ill-focused and provide low returns.

It is not possible to tell the exact contribution of Europe to results such as Chase's 32 per cent leap in second quarter post-tax profits to $307m. Most banks report their results for operations such as clearing and settlement on a global basis. But Europe clearly gives more than adequate returns.

Both Chemical Bank and Manufacturers Hanover cut their European presences during their years of crisis before they merged in 1991 to form Chemical Banking. The combined bank's assets are 60 per cent of their peak; staff numbers have fallen from 3,400 to 2,000 and European offices been reduced from 42 to 23 since 1985.

Its return on capital employed in Europe is now above 50 per cent – more than 10 times the 1985 figure. "There used to be a tendency to be everywhere, even if we were not sure what we were doing there," says Mr Aspbury. "We discovered it was as important to define what we weren't, as what we were."

Other banks also made hard reappraisals at the turn of the decade, as US operations were suffering from over-expansion in the 1980s. "We had to face painfully what we were good at, and how we could make our operations more efficient," says Mr Tom Swayne, Chase's area executive for Europe.

The result has been more than a recovery from lacklustre profits. Although US banks have struggled to break into protected and profitable investment banking activities in north Europe – such as advising companies and underwriting equity issues – they now dominate some corporate banking businesses.

The US banks have focused operations in several ways:

- Only Citicorp retains ambitions in retail banking – with 304 branches in its largest operation in Germany – in spite of having cut costs by an estimated $300m. Chase sold its 16 branches in Spain in 1991 and closed a UK credit card operation, while Chemical sold its UK mortgage arm in 1988.
- They have scaled down in countries where they were weak. Mr Swayne says Chase is active in south European capital markets and project finance, and needs outlets in countries such as Spain and Italy. But it is more selective in northern Europe, relying more on distributing products from London.
- They have concentrated on a few industries. Citicorp opted to focus on financial institutions such as merchant banks and insurers. It decided that it had more opportunities there, because cross-border financial flows were becoming far bigger than output and trade in individual countries.

"Financial flows are 50 times gross domestic product. The margins are lower, but the volume is tremendous," says Mr Ian Cormack, Citicorp's managing director. The bank now provides services such as securities settlement and clearing, and foreign exchange to 1,900 financial institutions.

- They have cut the number of corporate customers and tried to sell more complex products and services to the remaining ones. Mr Swayne says Chase's return on equity from companies that regard it as one of their leading banks is three times the level of cases where it only sells one product.
- They have built on their strength in services where European banks have been weak. An example is clearing and settlement of cash and securities, which US banks have tended to centralise at UK centres. Chase spends $45m a year on software upgrades for its Infoserve operation in Bournemouth.

The US banks gain advantages of scale because they can cut costs, and so prices. They can also control operational risks better. Finally, by tailoring transactions services for their customers, they can create what Mr Cormack calls "a series of webs" that make it harder for them to switch banks.

Yet in spite of their successes in the past three years, the US banks still have some way to go. One thing that has held them back is the fall in credit ratings which made some companies reluctant to buy services from them. The problem is now easing as their earnings recover and they are upgraded.

A greater difficulty is that the US banks have relatively poor contact with institutional investors in Europe. They have made private debt placements for European companies in the US, but would find it hard to replicate the feat in reverse. This restricts their role as financial intermediaries.

Building their profits in more sophisticated financial markets in northern Europe will require them to make deeper inroads into securities. For the moment, even the achievements of the past few years may not be enough for head offices to view Europe as a growth region to rival Asia.

"If I went back to New York now, and said I want $100m of equity to invest in a product line, it would probably not be top of the list," says Mr Aspbury. Even with Europe once again making decent profits, the days when all US banks had to have a branch in London or Paris are unlikely to return.

BSkyB in OFT cable charges inquiry

By Neil Buckley

The Office of Fair Trading is conducting preliminary inquiries into satellite TV company British Sky Broadcasting's position in the UK satellite and cable television market.

The office wrote last month to nine cable companies asking whether they had had problems obtaining programmes from BSkyB or other suppliers. It is particularly interested in BSkyB's charges to cable operators.

If the OFT finds there have been problems it will launch a full investigation. The office yesterday said that it could not discuss the responses it had received so far.

Many cable operators buy in BSkyB's most popular channels to supply them to subscribers. But the cost of doing so has prompted some to attempt to reduce their reliance on BSkyB by buying programming for their own cable-only channels.

That, however, can lead to bidding wars which push up the price of television rights to sporting events or films, for example.

News of the inquiries came as it emerged that several cable companies, including Telecommunications Inc (TCI), the largest US cable operator, have approached BSkyB over taking a stake in the satellite broadcaster.

TCI, which has large shareholdings in two UK cable companies, TeleWest and Flextech, has held initial discussions with BSkyB on taking a stake, and the two sides were reported yesterday to be due to meet again shortly.

BSkyB refused to comment on the reports and no one from TCI was available.

The attraction of a link-up between a cable operator and BSkyB would be to secure access to BSkyB channels and avoid bidding wars for programming. There is also speculation that Mr Rupert Murdoch, whose News Corporation owns 50 per cent of BSkyB, wants to increase his involvement in cable television.

It is not clear, however, where scope for another investor in BSkyB would come from. The other main shareholders, Pearson, owner of the Financial Times, which has 17.5 per cent, and Granada, with 12 per cent, are thought to be unwilling to reduce their holdings.

This week: Company news

ELECTROLUX/ERICSSON

Euro recovery set to refresh Swedish giants

Sweden's interim reporting season will get under way this week when two manufacturing heavyweights, Electrolux and Ericsson, present first-half figures.

Electrolux, the world's leading manufacturer of household appliances, is first out of the trap and its results tomorrow are expected to show a doubling of profits from last year's SKr763m level. The company is benefiting from a combination of stronger-than-expected recovery in Europe, healthy sales in the US, and cost-cutting. The average market forecast is for half-year profits of SKr1.52bn and full-year profits of SKr2.9bn ($380m), excluding capital gains.

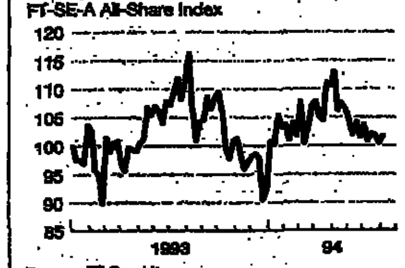
Ericsson's first-half figures, due on Thursday, are also keenly anticipated, with analysts looking for profits of between SKr1.8bn and SKr2.6bn compared with SKr1.28bn a year ago. The performance will be driven by booming sales of mobile phone systems, where the group has established itself as the clear world leader. Some commentators believe sales and order growth may have eased slightly in the second quarter, although both figures are still expected to be 20 per cent higher than a year ago. James Capel in London forecasts an increase in full-year profits to SKr5.05bn from SKr3.1bn in 1993.

The high expectations for both Electrolux and Ericsson reflect the wider confidence that Sweden's big multinationals will be presenting exceptionally strong half-year figures over the next three weeks.

Three factors lie behind the boom: the 25 per cent slump in the value of the Swedish krona since late 1992, radical cost-cutting over the last three years, and the growing European economic recovery (particularly in Germany, Sweden's largest export market).

BICC

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphite

BICC

Optimistic signals from US and cable TV

BICC, one of the big losers of the Malaysian government ban in February on contracts to British companies, should have some better news to report when it announces its interim results on Wednesday.

They should show a further improvement in the group's main UK and US cable markets, with pre-tax profits expected to nudge above £60m ($93m) for the six months to the end of June compared with a restated £50m for the first half of 1993.

North America is thought to have moved back into the black for the first time in three years, helped by the general improvement in the US economy and a rationalisation of company's North American business.

The cable television revolution in the UK should mean increased domestic profits. Cable television is providing good business for BICC, the UK's biggest producer of optic fibre cable which is increasing substantially its share of the market. The company is also the biggest producer, outside of the US, of optical fibre used in the manufacture of the cable.

Balfour Beatty the company's construction subsidiary, is thought to have made another useful contribution in the first half.

Earnings should be sufficient to cover a maintained dividend but increased payments to shareholders are still some way off.

OTHER COMPANIES

BCI poised for new capital-raising issue

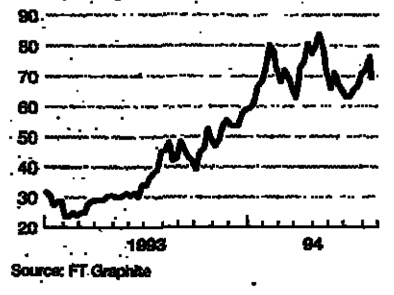
Banca Commerciale Italiana, the Italian bank, plans on Thursday to launch its first capital-raising exercise since privatisation – an issue of shares and warrants which should raise L2,362bn ($1.51bn). In the last two months, two Italian banks – Cariplo and Mediobanca – have been forced to postpone share issues because of market turbulence. But the price of the BCI issue has been set at a discount – L3,000-a-share against a market price of more than L4,400 – so should avoid the same fate, in spite of the turmoil in Italian equities last week.

On the same day, shares in Telecom Italia, the new grouping of state-controlled telecommunications operators, will start trading. Telecom Italia was created in May from the fusion of five existing companies, including Sip, the domestic telecoms operator, and became the sixth largest telecoms group in the world. Following a complex share-swap, its shares will replace those of Sip on the market, while shares in Italcable will be delisted.

■ Nedlloyd: The Dutch shipping and road-haulage group is expected to show a further rebound in profits when it publishes second-quarter results on Wednesday. The company, which launched quarterly reporting earlier this year, swung into a slim Fl10m ($5.6m) profit in the first quarter from losses in 1993. The pace of recovery is expected to have accelerated in the second quarter, thanks to strong growth in world trade flows and firmer shipping rates.

Nedlloyd

Share price (guilders)



Source: FT Graphite

■ Sony: The best-known name in Japanese consumer electronics, reports its first-quarter results on Thursday. The consolidated figures will cover its worldwide operations, but the parent company has been struggling to deal with the domestic downturn. The group has forecast a recovery to Y40bn ($404m) this year.

■ ABB Asea Brown Boveri: A recovering European economy is expected to be reflected in the first-half results of the Swedish-Swiss multinational industrial group on Wednesday. Forecasts are for pre-tax profits to be up 17 to 37 per cent. The group is expected to surprise markets by reporting a first-half net profit figure for the first time. On average, analysts forecast a 1994 net profit of $753m.

Companies in this issue

COMPANIES AND FINANCE

Reed Elsevier set to reveal Davis package

By Tim Burt

Reed Elsevier, the Anglo-Dutch information and publishing group, is today expected to announce details of a compensation package for Mr Peter Davis, its former co-chairman.

The announcement follows lengthy negotiations between the group's lawyers and actuaries, who have been working on the package since Mr Davis resigned in June over changes in management responsibilities.

Although Reed Elsevier declined to disclose the sums involved, city analysts believe he could receive up to £800,000 in cash, along with lucrative share options and pension benefits.

The company, however, described weekend reports valuing the final compensation deal at more than £2m as "pure speculation".

Mr Ian Irvine, who replaced Mr Davis as co-chairman, said: "The package is well within the legal maximum that could have been paid under the terms of his contract."

His predecessor was on a three-year rolling contract and earned almost £640,000 last year, including performance-related bonuses.

Speaking after the group announced its interim results last week, Mr Irvine pointed out that the package had been adjusted for "mitigation" – reflecting the likelihood of Mr Davis securing another job.

Reed Elsevier decided to make a separate announcement on the compensation because "we felt it was much better to link the act as closely as possible to the cost of the act", Mr Irvine added.

Mr Davis resigned after Reed Elsevier's executive committee decided that the co-chairmen should concentrate on strategy, management development and corporate communications – leaving responsibility for the operating business to other committee members.

Spring Ram gears up for exports drive

The new management team's recovery programme is under way. **Andrew Bolger reports**

There are signs not just of recovery but of expansion at Spring Ram, the Yorkshire-based kitchen, bathrooms and furniture group where institutional investors last year forced a boardroom shake-out.

The new management team led by Mr Roger Regan, the building industry veteran who took over as executive chairman last July, is investing £5m to start a new cabinets business. This follows the acquisition of a furniture company from BTR in June and the launch of an export drive.

The new management's enthusiasm is scarcely reflected in Spring Ram's share price, which has fallen sharply since the market became concerned about the outlook for the building materials sector and the big DIY retail sheds which Spring Ram supplies.

But analysts will be looking at the longer term outlook when the group reports its half-year figures on August 31. Although they are forecasting pre-tax profits of between £6m to £8m in the current year, they believe that profits of more than £30m could be achieved by 1996, depending on the progress of Mr Regan's recovery programme.

The cabinets business will use the increasingly popular foil technology, developed in Japan, which allows cheaper chipboard and fibreboard furniture to be covered with wood-grain and other decorative finishes, at a fraction of the cost of wooden products.

It is due to start production in November, and will use a 97,000 sq ft factory alongside the group's Regency Doors plant at Barnsley. The start-up is being masterminded by Mr Hartley Moyes, who joined the group last October as managing director of Regency Doors. He was previously managing director of Homeworthy, the Silentnight business. The cabinets business has the biggest share of the £150m UK market for foil-covered furniture, which grew by 66 per cent between 1990-93.

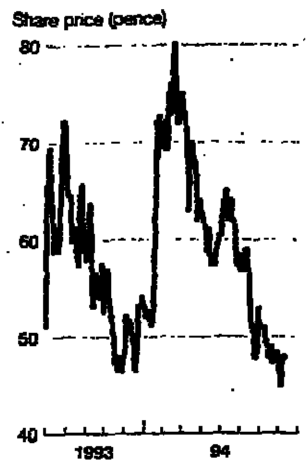
A £42m rights issue in January has also given Mr Regan flexibility to make bolt-on acquisitions. The issue bolstered the group's balance sheet following last year's pre-tax losses of £36.4m – which included £30.2m of provisions and write-downs.

In June, Spring Ram's Stag Furniture subsidiary paid BTR £5m for the Rest Assured group of companies, which make bedding, upholstery and hand-crafted furniture. Mr Regan said this would allow Stag, which makes bedroom and dining room furniture, to offer retailers an enlarged range.

Not all the news is positive. Artisan Tiles, the lossmaking Bradford plant which has been making ceramic tiles since 1992, is "still struggling".

Spring Ram

Share price (pence)



Source: FT Graphite

However, the group is more upbeat about Regency Doors which had also been identified as a possible candidate for closure and lost £10m last year. Mr Regan said there was now no question of closing the plant, which employs nearly 300 people – most of them former miners.

Mr Regan said the group was on – or slightly ahead of – its plan for Regency to return to profitability by 1996. Mr Moyes said this was despite an "appalling inheritance" of ineffective management in key areas – in particular the absence of production and material control systems, which led to huge wastage.

Roger Regan: kitchen division is a 'sleeping giant'

A new management team at Regency brought in consultants to help introduce control systems and a new sales team has been recruited. Stocks have been cut, the cash outflow controlled and improved training has led to a sharp increase in the output per trainee. New doors have been developed and the latest catalogue shows more than 20 different designs.

Mr Regan reckons Regency needs only 15 per cent of the UK doors market, which it estimates at £250m, but is also anxious not to provoke his main rivals into a price war, which could hurt everyone. So the company has launched an export drive, focusing on Europe, South Africa, the Middle East and the US.

Exports are also a priority for Spring Ram's bathroom division which last year lost money, in spite of having sales of £60m – nearly a third of group turnover.

Ram Bathrooms, the world's largest manufacturer of acrylic baths, makes money – as does the group's showers business. But these profits are wiped out by losses at Spring Bathrooms, which makes high-volume sanitary ware.

Mr Regan has raised prices, partly to get rid of non-profitable business. Output of cheaper bathroom units has been cut from 16,000 to 12,000 a week, with the loss of about 80 jobs.

These are the only significant job cuts made by Mr Regan – not counting the 27 former Spring Ram directors who have now departed, including several who became millionaires through share options.

The bathrooms market represents a particularly good export opportunity, according to Mr Regan, who says that luxury homes on the Continent are increasingly sold on the range and luxuriousness of their bathroom fittings.

The whole Spring Ram group exported only about £18m-worth of goods last year, out of total sales of £240m. But Mr Regan believes that overseas sales could be raised to £60m by 1996.

An important element in that exports drive will be the group's ultra-successful kitchens business, which last year made operating profits of £18.3m on sales of £109m. Mr Regan describes the kitchen division, which accounts for 12 per cent of the total UK market, as a "sleeping giant".

He said: "The Germans supply about 7 per cent of the UK kitchen market. There's no reason why British kitchens should not supply a significant proportion of the German and French markets. There will always be demand – particularly for the English country kitchen style, using lots of wood."

Analysts can be sure of a more considered presentation of the interim figures from the new chairman than they were accustomed to from his predecessor, Mr Bill Rooney, the co-founder of Spring Ram who was forced out last year. The new team discovered that Mr Rooney had planned to build a gantry over the M1, which adjoins Regency's Barnsley plant, emblazoned with a sign welcoming motorists to Yorkshire and Spring Ram.

Mr Regan quickly shelved that idea, but jokes that he knows just what he will do when the Regency plant, which is currently painted bright red, stops losing money: "I'll paint it black!"

Emap pays £11.25m for three golf magazine titles

By Peggy Hollinger

Emap's golf handicap improved substantially as the media group struck a deal with The New York Times to buy three of the sport's best known UK magazine titles for £11.25m cash.

Emap is buying Golf World, Golf Weekly and the trade magazine Golf Industry News, as well as the rights to re-publish articles from the US company's Golf Digest title.

The UK company already owns Today's Golfer, described as a magazine for the player with a handicap of 16 or more, and Fore!, which is aimed at helping the frustrated golfer improve his or her game. It also owns two golfing titles in France as a result of the recent £108m purchase of Editions Mondiales.

Mr Barry Dennis, managing director of Emap Pursuit, the sports publishing arm, said the company was confident the golf market was set for continued growth. "It's a little bit like trout fishing a few years ago. It was once exclusive and now its available to everyone," Mr Dennis said.

Golf World, a monthly and the largest of the three titles bought by Emap, has a circulation of over 80,000. It reaches more than 700,000 golfers, with almost nine people picking up each copy in clubs or shops.

The titles were marginally lossmaking last year on sales of £5.6m. Emap said it expected the titles to be earnings enhancing in their first full financial year.

● IPC Magazines has agreed to buy five titles, including The Field and Shooting Times, from the Daily Mail & General Trust for an undisclosed sum.

Winterflood enters gilts market

By Antonia Sharpe

The recent rise in the number of marketmakers in UK government bonds could be coming to an end with the entry into the market today of Winterflood Securities, the smaller companies marketmaker owned by Close Brothers.

In the past year, Hoare Govett, the UK stockbroker which belongs to ABN Amro, the Dutch bank, Merrill Lynch of the US and Yamaichi of Japan have become gilt-edged marketmakers (Gemms), attracted by the improved profitability in trading gilts.

Winterflood's entry brings the number of Gemms to 22, which rekindles memories of the overcrowded and tough conditions of the late 1980s that forced several participants to withdraw.

Unlike the larger Gemms which focus on large-volume trades, Winterflood will concentrate on retail and smaller institutional investors. Therefore, it will not be imposing a minimum size of trade.

"There is a reasonable amount of small business in gilts – trades of anything up to £1m – which many people in the market are not interested in doing," said Mr Brian Winterflood, chairman and managing director of Winterflood Securities. He added that there was potential for the gilts market to be opened further to smaller investors, especially if the government allowed gilts to be included in personal equity plans.

● BZW Investment Management plans to capitalise on the renewed interest in commodities by launching a closed-end commodities fund aimed at institutional investors. The Jersey-based investment company will be launched next month and is expected to attract up to £100m.

The benchmark for the fund's performance will be the Goldman Sachs Commodity Index, which includes a wide range of commodities, including livestock, agricultural products, energy and precious and base metals.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Commercial Union (UK)	Groupe Victoire (France)	Insurance	£1.5bn	Deal details announced
CIBA (Switzerland)	Unit of Johnson & Johnson (US)	Pharmaceuticals	£200m	More healthcare re-structuring
Service Corp International (US)	Great Southern Group (UK)	Funeral Services	£113m	Second final bid wins
Select Appointments (UK)	New Boston (US)	Business services	£21m	Sixth buy in a year
Ranger Oil (Canada)	Union Jack Oil (UK)	Oil & Gas	£13.2m	Agreed bid
Allergan (US)	Unit of Smith & Nephew (UK)	Optical Equipment	£11m	Ioptex disposal
Fyffes (Ireland)	JA Kahl (Germany)	Food Distribution	£7.9m	German foothold
BBAG (Austria)	Starobrno (Czech Republic)	Brewing	£6.9m	Czech brewing draws foreigners
Independent Newspapers (Ireland)	Argus Newspapers (South Africa)	Publishing	£4.5m	Stake up to 34.98%
Bemrose (UK)	Ritepoint (US)	Printing & Publishing	£3.7m	Purchase completed

هكذا في الأصل

COMPANIES AND FINANCE

Charter ready for next move on Esab

By Hugh Carnegy in Stockholm

Charter, the UK industrial group, will today announce whether it is willing to pay more for Esab, the world's largest supplier of welding equipment, than the £260m ($402m) recommended bid rejected by an important group of the Swedish company's institutional shareholders.

In spite of some bad blood engendered on both sides last week, it appeared unlikely yesterday that the UK company would carry out a threat to "walk away" from Esab, which the terms of its original offer allowed it to do if Charter failed – as it did – to win 90 per cent acceptances.

"Charter still thinks Esab is a great company. It really believes it can bring something to the business," said a source close to the deal, which would more than double Charter in size and add a long-sought fourth arm to its operations in building materials, coal and rail track equipment.

Most shareholders in Stockholm expect Charter will either raise its bid, or hold for the time being to the majority of the voting capital it has already won.

Charter was stunned last week when five Swedish institutions rebuffed its offer of SKr345 a share after the share price had shot up to as high as SKr365 since the bid was made in late June.

The UK company was already assured of 53 per cent of the voting capital, mainly through the 48 per cent pledged by Esab's controlling shareholder, Incentive, the industrial group, and may have received more by the last Friday's deadline. But Charter had made the bid conditional on achieving a complete takeover.

Esab shareholders insisted their objections to its bid were based solely on the perception that it was underpriced. Even the biggest institutional shareholder, the Fourth Fund, a state pension fund with trade union representation on its board, rejected a campaign by trade unions within Esab that argued Charter was a hostile foreign predator likely to run down its Swedish operations.

"In fact, you can argue that Charter is good for the Swedish operations. Charter has no existing overlapping business so it will not be looking for rationalisations," said a senior institutional director.

The main shareholder complaint is that the price of SKr345, which when the offer was made represented a 20 per cent premium, no longer offers a premium on an updated valuation of the company based on the share price and enhanced earnings forecasts. "That is a fact," Mr Bengt Eskilsson, Esab's chairman, acknowledged last week.

Esab, with annual turnover of SKr7bn ($900m), has recently surged back into profit after a programme of heavy restructuring and is forecasting greatly improved earnings as international demand picks up. Most of its production and markets are outside Sweden.

See Lex

IBM rethinks plans for PowerPC chips

By Louise Kehoe in San Francisco

International Business Machines has backed away from plans for heavy promotion of PowerPC microprocessor technology, developed with Apple Computer and Motorola, as a replacement for the Intel chips that dominate the personal computer industry.

The reversal raises questions about IBM's declared strategy to make PowerPC standard architecture for a broad range of its products.

It may also be a setback for IBM's partners in the development of PowerPC microprocessor chip. Intel, the world's largest chip maker, will in contrast undoubtedly benefit from IBM's apparent reluctance to enter into a PC technology marketing battle.

Rather than pushing customers to accept the new technology, the IBM PC division will "let the customer decide", said Mr Rick Thoman, IBM senior vice-president and the new head of IBM's PC business.

Mr Thoman is a long-time colleague of Mr Lou Gerstner, IBM chairman and chief executive. The two worked together for 22 years, at American Express and RJR Nabisco, prior to joining IBM.

"PowerPC technology has capabilities that don't exist in the current technology in terms of speed," said Mr Thoman. "But there are obvious negatives for PowerPC because it does not have an established base of application software."

Mr Thoman's public ambivalence toward PowerPC is in sharp contrast to the heavy promotion of the technology by other divisions of IBM, including IBM Microelectronics, the semiconductor division which manufactures PowerPC chips.

His position also represents a change of strategy for the IBM PC division. Last November, just before Mr Thoman joined the company, IBM's PC marketers launched an unprecedented effort to promote PowerPC at Comdex, the biggest PC industry trade show, but there are clearly advantages in avoiding a marketing battle that could undermine sales of its Intel-based PCs.

Mr Thoman said PowerPC may have greater significance in the high-end and mid-range systems parts of IBM "which still generate the bulk of IBM's revenues and profits". But without a solid base in the personal computer market, the future of PowerPC technology seems uncertain.

BZ fund buys stake in Glaxo

By Ian Rodger in Zurich

Pharma Vision 2000, the activist investment fund controlled by Mr Martin Ebner's BZ financial group, has acquired 5m shares in Glaxo, the world's second largest pharmaceuticals group.

Pharma Vision, known for its large holdings in Roche, the Swiss healthcare group, said Glaxo fitted well with its preference for companies that have a research-intensive strategy.

"It has an even stronger focus on the development and manufacture of pharmaceutical products than Roche. No other company devotes such large financial and human resources to pharmaceutical research," Mr Christoph Blocher, chairman, said in his interim report published on Friday.

Mr Blocher noted that the patent situation on Glaxo's most successful product – Zantac, an anti-ulcer drug – was unclear, but "our assumption is that revenues from the company's new products will, in the medium term, more than offset the expected loss of income from Zantac".

He hinted that Pharma Vision could well raise its Glaxo stake, valued at SFr56.4m ($42.7m) at the end of June, once it had seen the impact of recent management changes.

Meanwhile, Pharma Vision again raised its holdings of Roche securities in the first half. At June 30, it held 200,000 bearer shares worth SFr2.54bn, up from 135,000 at the end of 1993, and 160,000 dividend right certificates worth SFr1.02bn, up from 155,000. Its total holdings in Roche, including options, represented 91.7 per cent of its portfolio at the end of June.

It sold part of its holding in Ciba, the Swiss pharmaceuticals and chemicals group, during the first half and said the rest would be sold during the second half. Pharma Vision said in February that it did not agree with Ciba's diversification strategy.

The fund's net asset value at the end of June stood at SFr3.47bn compared with SFr2.86bn at the end of 1993, due mainly to the SFr530m proceeds of a February rights issue.

The net asset value per share rose marginally to SFr4,653 from SFr4,606 over the same period.

Pakistan telecoms sale under way

By Farhan Bokhari in Islamabad and Reuter

The partial flotation of Pakistan Telecommunication Corporation, the country's monopoly telephone service, gets under way today, with the government offering Rs1bn ($33m) of PTC shares.

The sale represents less than 1 per cent of of the corporation's worth, but the government plans to privatise a further 26 per cent next year, possibly to a "strategic investor", who would take over management of the concern.

Objections from the armed forces, who feared the sale would compromise Pakistan's security, delayed the sale for some two years. The government has since said some of the money raised through the sale will be used to set up a new telephone service for the armed forces.

PTC unions opposed to the privatisation said at the weekend that they would go on indefinite strike from today unless the government abandons the sale. The decision was taken at a supreme council representing nine unions, in spite of a ruling from Pakistan's top labour court that such a strike would be illegal.

Craftsmen are put in the saddle at Taiwan's Dahon

The world's biggest maker of foldable bicycles is aiming to improve quality in its top-of-the-range models, writes Laura Tyson

Dahon, the world's biggest maker of foldable bicycles, is hoping to take a leaf out of early manufacturers' books and introduce old-fashioned pride and craftsmanship to at least some of its production.

The Taiwanese company recently opened a new facility whose production methods are modelled on those of its Dutch subsidiary.

In Taiwan, Dahon bikes have until now been made on an assembly line, and for a while at least, most will continue to be. However, Dahon is setting up a smaller, parallel workshop for top-of-the-range models where one worker will be responsible for building an entire bicycle.

"Compared with an optimised assembly line as developed by Henry Ford, it's obviously not as efficient to have one person build an entire bike," says Mr Josh Hon, son of the company's founder, Mr David Hon. "But the advantage is that the quality is better, because each worker takes personal pride in the bike. The workmanship is much more meticulous."

Each bicycle made in the Dutch factory is sold with a sticker bearing the name of the worker who assembled it.

The Netherlands facility was set up in early 1992 to improve service and increase European sales. Perhaps surprisingly, labour costs in Europe are not significantly higher than in Taiwan, Mr Hon says. Also, when one factors in Taiwan's high employee turnover and the costs of recruiting and training new workers, and the resulting impact on productivity and quality, one comes out even, he says.

In a little more than a decade, Dahon has grown to a company with annual revenues in excess of $10m and annual unit sales of between 90,000 and 100,000, accounting for more than half of the international market for folding bicycles.

The story of Dahon is in many ways an archetypal tale of the Chinese diaspora. The elder Mr Hon was born in Canton, grew up in Hong Kong and attended university and graduate school in the US. During the energy crisis in the mid-1970s, Mr Hon began tinkering with a prototype folding bicycle in his garage while pursuing a career as a laser physicist at Hughes Aircraft in Los Angeles.

The original idea was to create a bicycle which could be used by commuters in cities such as Los Angeles where public transport is not particularly convenient. A commuter could cycle to the nearest bus or train station, fold the machine and carry it, then ride it to the office.

In 1983, Mr Hon quit Hughes Aircraft to launch his own company. He chose Taiwan for its plentiful supply of skilled labour and flexibility in sourcing components.

Dahon's corporate history has been chequered with challenges. These range from the sharp appreciation of the Taiwan dollar in the late 1980s and a subsequent jump in land and labour costs, to difficulties in training and retaining skilled workers.

Until recently, Dahon dominated the market, but now it is struggling to fend off a spate of competitors – some of whom are former employees who undercut Dahon's market with cheaper copies. The new Dutch-style production facility is just another bid to stay one step ahead of the competition.

Another way has been to invest in the research and development of new models, including a selection of folding mountain bikes as well as city bicycles. In addition to assembling bikes in the markets in which they will be sold – thus avoiding import tariffs – Dahon is also beginning to source components offshore in places such as China, although the engineering and quality does not yet match Taiwan standards.

Mr Hon fears that given the higher retail cost of a Dahon bicycle – the price is between 50 per cent and 100 per cent higher than a comparable non-folding model – the market may be approaching saturation.

Without the capital to increase volume and thus achieve economies of scale, the production costs will remain high. Dahon has been talking with potential partners for several years, but no pact has been reached to date.

"Our dream is to get costs down to the point where the retail price is just 20 or 25 per cent higher than that of ordinary bikes," explains Mr Hon. "If we can do that, we believe our market would expand dramatically. If you could buy a bike which was just as good as a normal bike, but had the advantage of being foldable, you'd probably be willing to pay a bit more."

The single biggest obstacle to reducing costs is the stranglehold on the world market in derailleur gear systems held by one Japanese company, Shimano. For Taiwanese bike-makers, the derailleur alone accounts for about half of the production cost of a bicycle, Mr Hon estimates.

Dahon's best market has historically been Japan, but the rest of Asia, especially Hong Kong, South Korea and Taiwan, is growing quickly. The younger Mr Hon believes this is due to the fact that there is such a premium on space in crowded Asian countries. The US market is unlikely to see much growth, he says, but Europe has much potential.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / **Bronwen Maddox in New York**

Protesting too much

There should be limits to how much worry you can expend on something you regard as a certainty. That is, however, not a principle which the US markets appear to be recognising this week.

Despite rallying on Friday, the bond market remains nervous that the Federal Reserve will use Tuesday's meeting of the open market committee to raise short-term interest rates for the fifth time since February. The market's worries virtually scuppered Thursday's $40bn auction of 30-year bonds. But both bond and equity markets have now put themselves into a no-win frame of mind, where none of the courses which the Fed might adopt will prove reassuring.

True, some indecision is justified by the way that successive sets of economic data alternate in suggesting strength and weakness in the economy. Thursday's retail sales figures for July showed prices, excluding car sales, rising by 0.4 per cent, slightly faster than Wall Street's expectations, but Friday's consumer price index figures then showed a smaller rise than analysts expected.

However, the markets have reckoned that this pot-pourri of data will eventually throw up enough signs of capacity constraints to prompt the Fed into raising rates. That is probably right, given Fed officials' touchiness to the charge that they left rates too low for too long last year, and the anecdotal evidence from the Fed's own survey of its 12 district banks which suggests labour shortages and renewed consumer spending.

The bond market is now virtually discounting a 50-point rise this week. Perversely, if that does not emerge, bonds may even slump on fears that the Fed has not been tough enough, and the market might well continue to assume a further rise by autumn.

If the bond market's jitters are not calmed, it will be hard for equities to advance. But if there is a 50-point rise, equities may well take it badly; despite the strength of second quarter corporate earnings, shareholders remain nervous that the recovery is fragile and that profits could falter just as interest rates rise. Tuesday's meeting is unlikely to deliver a quick solution to that paralysis.

■ Takeover flurry

Among other reasons for fretting, Wall Street analysts have feared that a rate rise could undermine the current wave of takeovers, particularly if accompanied by a strengthening of the dollar. A survey of cross-border mergers and acquisitions* published last week by KPMG Peat Marwick, the international accountancy and consultancy firm, suggests that it would not.

The most striking feature of the report, a quarterly worldwide survey of acquisitions, is that it confirms Wall Street's impression that much of the impetus behind current takeovers is overseas capital.

In the past six months, according to KPMG, non-US companies spent more on acquisitions, joint ventures and stakes in the US than US companies spent abroad.

This reverses the pattern of the past two years, when US "exports" of deal capital outstripped imports.

The switch has occured despite the absence of the Japanese from the world's takeover party. According to KPMG, the total value of Japanese acquisitions and investments outside Japan fell from $6bn in the first half of 1993 to $1bn in the second half and to $2bn in the first half of this year.

There are obvious dangers in over-interpreting such surveys, given the lumpiness of the data, which is easily skewed by large deals. But the KPMG report, which tracks all publicly-announced deals between companies from different countries, numbering some 4,000 a year, does shed some light on the phenomenon.

KPMG unsurprisingly attributes some of the inflow of foreign capital to the US to the dollar's weakness. Now that earnings are picking up, US companies look cheaper to foreign rivals than they have done for years. The survey also suggests uncontroversially that the steady rise in the size of acquisitions in the past few years – and in the frequency of "mega-deals" – represents corporate confidence that the capital markets are willing again to fund rapid, large deals.

That confidence could increase if Japanese investors overcome their nervousness about foreign exposure. Recent capital account figures suggest that they might: in June, there was a net outflow of $7.7bn long-term capital from Japan, including purchases of foreign bonds by Japanese investors.

But you do not need to invoke the return of the Japanese to argue that high levels of takeovers will continue. The survey shows that nearly a third of all deals in the past 18 months in particular, measured by value, were driven by the extensive restructuring under way in the world's pharmaceutical, media and telecommunications industries.

The figures also throw up an apparent paradox: a surge in deal making between companies across the "Nafta" borders. In theory, last year's North American Free Trade Agreement, which lowered trade barriers between the US, Mexico and Canada, should reduce the need for a company to buy rivals across those borders in order to serve its markets.

Yet companies spent $7bn on deals across Nafta borders in the first half of 1994 alone, and $11.4bn last year, compared to only $2.5bn in 1991.

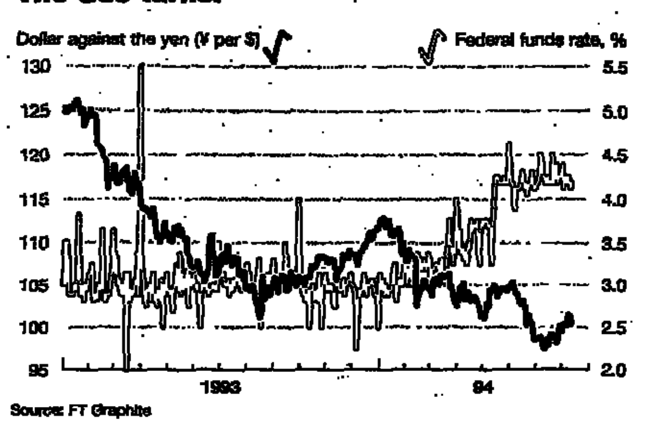
Mr Stephen Blum, a KPMG corporate finance director, suggests that the activity represents a preliminary shuffling of the pack of mature businesses such as food and textiles in anticipation of the growth in trade which will follow from Nafta.

It also, he argues, reflects the "creation of a seamless North American infrastructure" in industries such as telecoms. For instance, Nextel, the US telecoms group, is assembling a digital wireless network through a web of stakes in Canadian and Mexican companies, while Mexican companies have bought into satellite groups north of the border.

That amounts to a more complex picture than the bargain-hunting scramble, prompted by the dollar's weakness, which some have portrayed. It suggests too that Wall Street's takeover advisers have little to fear from the Fed and the markets this week.

** KPMG Quarterly analysis of cross-border transactions, KPMG New York (212) 909 5108.*

The tide turns:



Source: FT Graphite

Total return in local currency to 11/8/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.08	0.04	0.09	0.10	0.16	0.09
Month	0.39	0.18	0.41	0.48	0.68	0.42
Year	3.56	3.03	6.00	5.94	8.56	5.56
Bonds 3-5 year						
Week	-0.85	-0.42	-0.98	-0.99	-1.06	-0.48
Month	0.64	-1.24	-0.77	-0.28	-1.11	-0.63
Year	-0.46	2.73	3.64	1.57	4.01	0.43
Bonds 7-10 year						
Week	-1.36	-0.33	-1.94	-1.71	-2.46	-1.18
Month	1.10	-1.61	-1.69	-0.61	-3.29	-1.38
Year	-3.40	1.20	0.04	-1.74	0.09	-3.51
Equities						
Week	0.2	0.5	-1.4	-2.3	-5.9	-0.2
Month	2.9	0.6	3.9	5.1	-1.6	5.8
Year	4.7	0.2	14.4	0.6	10.5	8.7

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

COMMODITIES Deborah Hargreaves / Kenneth Gooding

Testing time for coffee market

Traders in London will be eager for the opening of the coffee futures market this morning as it will be the first opportunity to react to a report by the US Department of Agriculture assessing the extent of frost damage to the 1995 Brazilian coffee crop.

The USDA report was released after the close of the London and New York markets on Friday. It estimated that next year's Brazilian crop will reach between 17m and 20m bags – a figure well within market expectations. Trading at the London Commodity Exchange last week had been volatile and jittery as the market awaited the outcome of the USDA report.

But brokers had expected the report to be more optimistic than Brazil's own estimate of frost damage and for this reason pushed prices downwards last week.

By close of trading on Friday, the November futures contract was some 10 per cent lower than it had been the week before at $3,273 a tonne. It has dropped from a peak of over $4,000 after the initial reports of the frost damage.

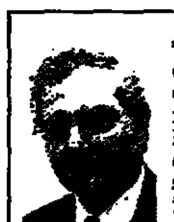
Meanwhile, traders will be keeping a close watch on London Metal Exchange lead stocks which, against all expectations, have been rising in recent weeks. On Friday the LME reported lead stocks at a record 365,425 tonnes.

Unexpectedly large shipments from China are partly to blame – the official China Daily reported exports of lead surged by 209 per cent to 124,300 tonnes in the first half of 1994. All of this metal was absorbed by the booming markets of south-east Asia, but its presence in the market forced other producers to deliver more to the LME.

Nevertheless, analysts remain bullish about lead's prospects. There are serious shortages of concentrate (an intermediate material) because low prices have forced many mines to close. This must soon have an impact on western producers of refined lead and they will have to cut supply, analysts suggest, even though demand remains robust.

Economic Eye / **Martin Wolf**

Productivity and pay



The chancellor of the exchequer does it; industrial leaders do it; even striking signalmen do it. What do they do? They all argue that people should be rewarded for increased productivity. Can they all be wrong? Yes, they can.

Under Kenneth Clarke's pay policy for the public sector, pay can rise only if financed by higher productivity. Now the British travelling public finds itself deeply inconvenienced by arguments over what this means, with the signalmen insisting that they are owed money for having accepted new technology and working practices.

This consensus that pay should be linked to productivity is not a harmless cliché. It is a damaging mistake.

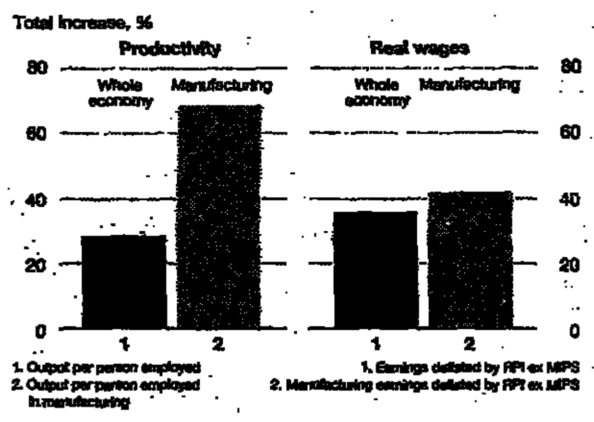
Suppose an employer invests in a powerful new machine. Why should he pay more merely because output per worker has risen? If he were to summon the courage to lay off his redundant workers, why should he have to increase the pay of those who stay? To do so is merely to reward workers for creating inefficient work practices.

There is only one good reason for a company to reward higher productivity: if the increased pay is both incentive and reward for more effort. Otherwise, employers should pay people as market conditions dictate. "Market, plus motivation" is the right slogan, not "more productivity, higher pay".

Kind-hearted people will object that it would be unfair not to reward workers for producing more. In fact, it would be quite unfair to do so.

Output per person in UK manufacturing rose by almost 70 per cent between 1979 and 1993 (see chart). But real wages in manufacturing rose "only" 42 per cent. Meanwhile, output per person in the whole economy rose a little less than 30 per cent, while real wages rose 36 per cent.

Productivity and pay under the Tories (1979-93)



Thus real wages in manufacturing have lagged well behind increases in sectoral productivity, overall real wages have risen a little more than overall productivity and real wages in manufacturing have risen only a little faster than in the whole economy.

Sectoral productivity has, it turns out, not been linked closely to sectoral pay. Rightly so, since it would be ridiculous for the pay of electricians in motor-car plants to rise faster than that of those in hospitals. People of a given level of skill and motivation should be paid roughly the same, wherever they work. The alternative would indeed be unfair. It would also be inefficient, with too few people employed in dynamic, high-paying industries.

Companies appear to have ignored the nonsense about linking pay to productivity in each activity. Meanwhile, real earnings in the economy have risen roughly in line with overall productivity, as they should. So is there a problem? Unfortunately, there are two.

First, there have been large increases in pay inequality in the UK, as in the US, during the 1980s. A recent report from the Institute for Fiscal Studies notes that most of the increased inequality has reflected increased variability in the wages of people with similar education and experience.* The likely explanation is that workers have shared in the "excess" profits of more dynamic companies, at the expense of the shareholders of such companies, and their growth.

Second, even if industry-specific productivity growth has not, in the event, been matched by higher wages, the attempt to achieve this objective risks higher inflation, higher unemployment, or both.

Suppose dynamic companies do share excess profits with their workers. Labour market competition and bargaining over pay relativities will then induce employers in less dynamic activities both to pay more and to employ fewer people. If governments respond to higher unemployment with monetary laxity, an inflationary spiral will ensue. If they respond to higher prices with deflation, the result will be rising unemployment. This will cease only when the pressure of the unemployed halts the undue rise in real wages.

In the long run, overall labour-productivity growth cannot be lower than that of real wages, without there being a profits collapse. If company-specific productivity bargaining does push up overall real wages, productivity growth will tend to rise, as less productive workers are pushed out of the labour force and more capital-intensive techniques are used. The rate of productivity growth will then be too fast, a fact shown in rising unemployment.

That is precisely what has been happening in the UK since the late-1970s. Productivity has been growing too swiftly, largely in response to excessive increases in real wages. Real wages have risen too fast partly because employers who can afford to pay more have felt obliged to do so, while the laggards have felt compelled to match them.

One answer is pay co-ordination around a "going rate" that reflects an inflation objective and the increase in real wages consistent with full employment. The alternative is a truly competitive labour market. Employers would then pay their workers no more than needed to keep and motivate them. They would not lay off redundant workers and then pay those who remain more, just because they are more "productive". They would, instead, lay off redundant workers and refuse to pay those who remain any more. Thereupon, it would become profitable for them to employ additional people.

British employers have, in short, failed to grind the faces of their workers. They have been too soft, at the expense of the unemployed.

** What has happened to wages? Commentary No. 43 (London: Institute for Fiscal Studies, 1994).*

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY AUGUST 12 1994								THURSDAY AUGUST 11 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	174.15	4.4	166.92	110.07	140.85	156.08	–4.5	3.53	176.36	170.58	112.72	145.53	157.11	189.15	139.24	143.78
Austria (17)	191.58	3.6	183.62	121.09	154.95	154.87	–7.0	1.03	189.43	183.22	121.08	156.31	156.24	195.41	164.64	164.88
Belgium (37)	176.13	8.3	168.82	111.33	142.45	139.32	–3.9	3.97	174.07	168.36	111.26	143.63	140.36	176.76	143.62	147.24
Canada (105)	128.41	–5.4	123.08	81.16	103.86	128.44	–1.3	2.64	128.75	124.53	82.29	106.24	128.43	145.31	120.54	125.48
Denmark (33)	262.55	6.2	251.65	165.94	212.34	220.35	–3.5	1.35	260.55	252.02	166.54	215.00	222.33	275.79	212.38	212.43
Finland (24)	158.67	28.8	152.09	100.29	128.33	172.36	15.1	0.82	159.52	154.30	101.96	131.63	175.52	164.23	104.28	109.92
France (97)	174.75	–0.7	167.49	110.45	141.33	146.32	–10.2	3.01	174.12	168.42	111.29	143.68	148.45	185.37	159.13	160.04
Germany (58)	144.77	3.2	138.76	91.50	117.09	117.09	–7.5	1.77	143.80	139.09	91.91	118.66	118.65	147.24	120.35	120.35
Hong Kong (56)	385.35	–21.2	369.36	243.56	311.67	382.35	–21.2	3.17	386.47	373.81	247.02	318.91	383.37	506.56	298.76	291.24
Ireland (14)	201.05	8.6	192.71	127.07	162.61	186.06	0.5	3.33	201.56	194.96	128.83	166.32	187.84	209.33	161.54	163.96
Italy (61)	76.92	12.1	73.72	48.62	62.21	91.71	4.6	1.66	80.19	77.56	51.25	66.17	95.58	97.78	57.86	72.00
Japan (469)	164.94	26.8	158.10	104.25	133.41	104.25	13.6	0.73	164.28	158.90	105.00	135.57	105.00	170.10	124.54	182.43
Malaysia (96)	538.17	–8.0	515.83	340.16	435.27	529.81	–13.7	1.56	540.79	523.08	345.66	446.28	533.50	621.63	381.95	382.58
Mexico (18)	2196.91	–6.0	2104.75	1387.92	1776.02	8154.63	0.6	1.64	2177.68	2106.33	1391.89	1796.94	8091.71	2647.08	1615.11	1650.71
Netherland (27)	213.01	7.0	204.17	134.64	172.29	169.89	–3.8	3.35	210.33	203.44	134.44	173.56	171.21	214.54	173.06	173.06
New Zealand (14)	70.48	3.8	67.57	44.55	57.01	62.31	–3.3	3.84	70.27	67.97	44.91	57.99	62.16	77.59	56.86	57.85
Norway (23)	204.28	13.7	195.80	129.11	165.22	180.78	3.5	1.74	204.43	197.73	130.66	168.68	193.14	211.74	165.52	171.79
Singapore (44)	361.00	–1.8	346.02	228.17	291.98	250.45	–8.1	1.68	359.35	347.58	229.69	296.53	249.48	378.92	269.16	289.16
South Africa (69)	301.92	13.0	289.39	190.83	244.19	298.94	19.3	2.06	298.30	288.53	190.66	246.15	302.98	301.92	175.93	196.21
Spain (42)	144.57	3.8	138.57	91.38	116.93	142.30	–5.7	4.05	146.14	141.36	93.41	120.58	144.98	155.79	122.55	122.55
Sweden (36)	212.60	8.3	203.78	134.38	171.95	245.11	1.2	1.63	214.27	207.25	136.95	176.81	260.12	231.35	175.83	185.75
Switzerland (47)	162.40	1.4	155.66	102.64	131.35	131.52	–10.8	1.85	159.25	154.03	101.79	131.41	132.01	176.56	129.77	129.77
United Kingdom (204)	198.72	–3.1	190.47	125.60	160.73	190.47	–7.3	3.98	196.73	190.28	125.74	162.34	190.28	214.96	178.29	179.68
USA (519)	188.74	–0.6	180.91	119.29	152.65	188.74	–0.6	2.85	187.62	181.48	119.92	154.82	187.62	196.04	178.95	183.72
EUROPE (720)	171.77	2.0	164.64	108.57	138.93	154.18	–6.6	3.01	170.85	165.26	109.20	140.98	155.51	178.58	149.66	149.66
Nordic (116)	210.40	11.0	201.66	132.98	170.17	206.24	2.1	1.44	211.07	204.16	134.91	174.17	209.78	222.03	173.19	174.09
Pacific Basin (749)	173.67	18.7	166.47	109.77	140.47	114.63	8.3	1.05	173.22	167.55	110.72	142.94	115.39	176.86	134.79	165.54
Euro-Pacific (1469)	172.75	11.4	165.57	109.18	139.71	130.53	1.6	1.87	172.10	166.46	110.00	142.01	131.51	173.89	143.88	158.90
North America (624)	185.00	–0.7	177.32	116.93	149.63	184.61	–0.6	2.84	183.97	177.94	117.59	151.81	183.56	192.73	175.67	180.11
Europe Ex. UK (516)	153.59	4.1	147.21	97.08	124.22	132.90	–6.1	2.44	153.19	148.16	97.92	126.41	134.81	158.12	130.74	130.74
Pacific Ex. Japan (280)	259.45	–9.5	248.68	163.99	209.84	231.00	–13.5	2.79	260.76	252.22	166.67	215.18	231.89	296.21	196.72	196.72
World Ex. US (1651)	174.05	10.7	166.82	110.01	140.77	134.11	1.8	1.89	173.38	167.70	110.82	143.07	135.08	175.01	145.58	159.08
World Ex. UK (1966)	175.87	7.3	168.57	111.16	142.24	147.25	1.8	2.04	175.17	169.43	111.96	144.55	147.69	176.51	155.96	164.98
World Ex. So. Af. (2111)	177.11	6.4	169.76	111.94	143.25	150.06	0.7	2.23	176.32	170.55	112.70	145.49	150.43	178.56	158.54	166.19
World Ex. Japan (1701)	186.97	–0.4	179.21	118.18	151.22	178.30	–3.6	2.87	186.08	179.98	118.93	153.54	178.41	195.20	170.51	170.51
The World Index (2170)	177.69	6.5	170.51	112.44	143.68	151.16	0.9	2.23	177.06	171.28	113.18	146.12	151.55	178.97	158.85	166.30

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.32 (Local).
Constituent changes during the week ending 12/8/94: Delete: Bow Valley Energy (Canada). Name change: Kemayan Oil Palm to Kemayan Corp. (Malaysia).

EMERGING MARKETS: This Week

The Emerging Investor / **Damian Fraser**

Election clouds Mexican market

In a year remarkably short of good news, investors in Mexico's stock market expect a change of luck next Sunday. They are betting heavily that Mr Ernesto Zedillo of the governing party will win the presidential election, and his triumph will be widely recognised as legitimate.

Since July 20 the main index has surged by 19.3 per cent, with investors picking up stocks whose values had been depressed by pre-electoral nerves. The market has now recovered all of its peso losses of the year, although it is still down in dollar terms.

The gains have been so impressive that some reckon that a Zedillo victory has now been fully discounted and that if it occurs investors will take profits.

"After the build-up to the election, there could be a vacuum after a Zedillo victory," warns Mr Robert J Pelosky of Morgan Stanley in New York.

Before committing more money to the market, investors may wait to see how the post-electoral situation evolves. Mr Cuauhtémoc Cárdenas of the left-wing Party of Democratic Revolution has promised massive civil protests if there is electoral fraud, and with a devoted following of about 2m supporters, some fear he is a threat to political stability.

"There is a final hurdle – will the election be credible and accepted?" says Mr Jorge Mariscal of Goldman Sachs. "If that is cleared then there is a basis for very strong capital inflows."

Such inflows, if they materialise, should help reduce domestic interest rates, perhaps to as low as 11 to 12 per cent by the end of the year. Short-term interest rates fell last week to 15.15 per cent from 17.66 per cent on July 20.

A further cloud over the market is the possibility of a rise in US interest rates or long-term bond yields. The increase in US interest rates earlier this year contributed to the sharp fall in the local equity market. If international investors turned against emerging markets again, Mexico would likely be the first to suffer.

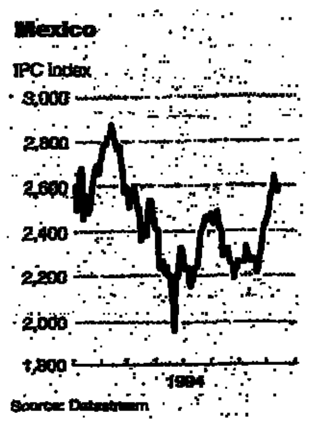
Higher US interest rates could lead to speculation against the peso, depending on the post-electoral situation. In spite of low economic growth, Mexico is expected to run a current account deficit of about 7 per cent of GDP this year.

Some economists believe that the government may decide in the post-electoral period to accelerate the maximum rate of devaluation of the peso against the dollar, from the current 5 per cent a year to as much as 10 per cent, in an effort to make the peso more competitive over the long-term.

The recent increases in the market have not been all election-based. Second quarter results turned out to be better than many expected. Baring Securities calculates that operating profits of the 42 companies it tracks grew by an average of 16 per cent in the second quarter against 12 per cent in the first quarter. Real sales were up by 8 per cent in the second quarter against 6 per cent in the first quarter.

Mexico

IPC index



Source: Datastream

The good second quarter numbers and growth of 3.1 per cent in industrial production in May have been taken as evidence that the long-awaited economic recovery is proving stronger than expected. Mexico's economy grew by just 0.5 per cent in the first quarter. But encouraged by the new figures for industrial production, Mr Pedro Aspe, Mexico's finance minister, reckons the economy will grow between 2 and 3 per cent this year.

While the good economic figures have been helpful, the election has been uppermost in investor minds. In the view of many, Mr Zedillo offers the best chance of political stability and a continuation of the pro-market economic policies that have characterised the presidency of Mr Carlos Salinas. Many fear that a victory by the opposition would bring a new and untried team to government, which would find it difficult to govern a country that has been accustomed to one-party rule for 65 years.

Mr Roberto Hernández, the head of Banamex, Mexico's largest bank, caught the prevailing mood when he recently said that Mr Zedillo was the only candidate who could assure stability and bring interest rates down.

Lower interest rates are expected to benefit above all Mexico's banks, which have been saddled with many non-performing loans as small and medium-sized companies have been unable to meet growing debt-service payments.

The three largest banks are trading at an average of 10.3 times 1995 expected earnings compared to a market multiple of 13.3, according to Baring Securities, with some analysts believing this discount will narrow as rates come down and loan-growth picks up.

Infrastructure and construction stocks are tipped by others as likely winners under a Zedillo presidency. These sectors have grown faster than the economy this year, partly because of increased government investment, but should benefit from lower interest rates. Mr Zedillo has promised a 25 per cent increase in infrastructure spending if elected, which should give them an additional boost.

Ten best performing stocks

Stock	Country	5/8/94 $ close	Week on week change $	Week on week change %
Arcelik	Turkey	0.4890	0.1142	30.47
Alakro Holdings	Turkey	0.9139	0.2121	30.23
Bagfas	Turkey	0.2501	0.0555	28.55
Eregli Demir Ve Celik	Turkey	0.1956	0.0425	27.76
Brisa	Turkey	0.1924	0.0329	20.63
Grupo Ind. Minera Mexico	Mexico	3.6803	0.5794	18.68
Eczacibasi Ilac	Turkey	0.0946	0.0117	14.06
Koc Holding	Turkey	0.8979	0.1004	12.59
Yapi ve Kredi Bankasi	Turkey	0.1347	0.0151	12.59
JG Summit	Philippines	0.4190	0.0449	11.75

Source: Baring Securities

News round-up

■ India

Bombay's stock exchange closed at an all-time closing high on Friday, and many analysts expect the rally to continue this week. The market was encouraged by an extension of the settlement period, the recent spate of positive company results and the good monsoon rains.

Foreign & Colonial Emerging Markets in London commented that fundamentals continued to look good, helped by lower reported inflation, even though the figure remained over 10 per cent – "The government has announced further increases in foreign exchange reserves and the finance minister has announced plans to make the rupee fully convertible on the current account by September".

■ Kuala Lumpur

Thirty-five Japanese companies operating in Malaysia want to make public offers of their shares, according to a survey by the Japanese Chamber of Trade and Industry in Malaysia.

The survey of 150 companies conducted in March and April this year found that two companies were making preparations for a public offer, eight said that they had scheduled an offering, and 25 want to go public in the future.

■ South Africa

Johannesburg's stock exchange announced moves to deregulate the market last week. The measures include a timetable for removing those barriers which have prevented banks and foreign companies from owning local brokers.

The JSE, which ranks as the 11th largest stock market in the world as measured by market capitalisation, will be restructured to "meet the needs of the new South Africa", said Mr Roy Anderson, the president of the exchange.

Banks and foreign companies will be able to take a 30 per cent stake in local brokers as soon as legislative amendments have been passed by parliament, with full ownership to be permitted 12 months later.

● The South African Council of Banks has said that it will continue investigations into prospects for a rival stock exchange, although it was open to further talks with the Johannesburg Stock Exchange.

■ Hong Kong

Thai market equity funds were the top performers among Hong Kong-run funds for the fourth consecutive month in July, seeing an annualised return of 71.2 per cent last month, the Hong Kong Investment Funds Association has said. Singapore and Malaysian equity funds came in second at 42.08 per cent, followed by Asian (excluding Japan but including Hong Kong) equity funds which reported 38.05 per cent.

■ Taipei

The Bureau of Monetary Affairs has said that it has eased limits on the number and location of foreign bank branches, *agencies report.*

The bureau, which is part of the finance ministry, unveiled amendments to regulations governing the establishment of foreign bank branches and representatives, making it easier for foreign banks to join the local banking sector.

Foreign banks are currently allowed to open a maximum of three branches a year either in Taipei or the southern city of Kaohsiung.

■ Cairo

Egypt plans to sell off four more public-sector companies to employees and the public by the end of the year.

The shares to be sold would be worth a total of E£1bn ($290m).

● **Emerging markets coverage appears daily on the World Stock Markets page**

Baring Securities emerging markets indices

Index	12/8/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (288)	173.41	+0.75	+0.43	+16.74	+10.69	+5.00	+2.97
Latin America							
Argentina (20)	109.27	-0.99	-0.89	+6.93	+6.77	-6.11	-5.29
Brazil (22)	200.11	+4.49	+2.29	+22.67	+12.78	+60.46	+43.30
Chile (12)	188.12	-0.62	-0.33	+9.88	+5.54	+40.58	+27.51
Mexico (26)	150.15	+1.03	+0.69	+17.87	+13.50	–11.11	–6.89
Peru(16)	707.39	-17.04	-2.35	+47.62	+7.22	+131.30	+22.79
Latin America (96)	161.95	+1.31	+0.82	+16.47	+11.32	+12.71	+8.52
Europe							
Greece (13)	90.22	+0.00	+0.00	+6.32	+7.53	+7.13	+8.58
Portugal (16)	120.59	-1.01	-0.83	+9.29	+8.34	+8.46	+7.54
Turkey (20)	88.50	+8.29	+10.34	+5.01	+6.00	–73.21	–45.27
Europe (49)	103.31	+11.17	+1.15	+7.38	+7.70	-8.93	-7.96
Asia							
Indonesia (22)	142.51	-2.39	-1.65	+3.41	+2.45	–28.53	–16.68
Korea (23)	132.92	+2.35	+1.80	+2.91	+2.24	+23.22	+21.17
Malaysia (23)	233.67	+1.03	+0.44	+26.20	+12.63	–19.38	–7.66
Pakistan (10)	113.42	+1.84	+1.65	+2.86	+2.58	+1.72	+1.54
Philippines (11)	301.65	+11.50	+3.96	+53.42	+21.52	–20.82	–6.46
Thailand (24)	248.78	+1.52	+0.61	+31.74	+14.62	–14.78	–5.61
Taiwan (30)	166.09	-9.12	-5.20	+5.17	+3.22	+12.38	+8.06
Asia (143)	214.80	-0.45	-0.21	+19.85	+10.18	–6.61	–2.99

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES

Philip Gawith

Markets on interest rate alert

Markets will be on an interest rate alert after a sharp wake-up call last week from the Swedish and Italian central banks.

The combination of the Bundesbank council meeting again on Thursday, after a four week recess, the FOMC meeting tomorrow, and nervousness in European markets, makes for a potentially busy week.

The balance of opinion in the market favours a tightening of policy from the Fed, while rate moves from the Bundesbank are also not ruled out, nor from other European countries following the Italian and Swedish examples.

After a protracted spell of quiet, range-bound summer trading, Thursday and Friday last week were two of the busiest trading days for some time. Traders are expecting a continuation of more active trading conditions this week, though trade may be more muted today with most European markets closed for the Assumption Day holiday.

The initial focus will be on the lira and Swedish krona, both of which were under speculative pressure last week as the market gave the thumbs-down to higher rates. Most other currencies were also wilting under the weight of the resurgent D-Mark – the beneficiary both of a flight to safety among concerned investors, and an economic recovery whose vigour continues to surprise investors.

While analysts agree that raising rates in order to defend the currency is likely to be folly, they also stress that a repeat of 1992-93 ERM tensions is unlikely. Then the markets judged that governments lacked the will to impose high interest rates on economies mired in recession.

Now that economic growth has re-appeared, raising rates is less problematic. The wider ERM bands also makes currencies less vulnerable to speculative attack.

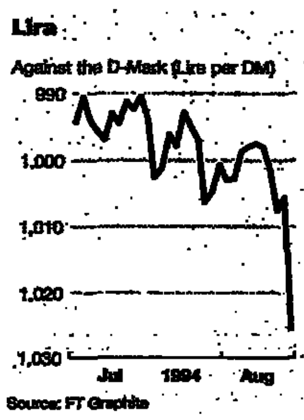
While many analysts still expect the Bundesbank to lower interest rates once more, it may choose to wait until it has seen the latest M3 figures, which are due for release at the end of the week.

In favour of an early move, however, is that the Bundesbank will probably not want to adjust rates in the month preceding the federal elections in October. The firmness of the D-Mark also strengthens the central bank's hand.

The odds of the Fed lifting interest rates would seem to be better. But with the D-Mark strong and President Clinton's political stature again in the spotlight, the risks for the dollar are probably on the downside, despite firmer rates.

Lira

Against the D-Mark (Lire per DM)



Source: FT Graphite

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday August 12, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	4272.80	2762.53	1775.82	2762.88
Albania	(Lek)	154.77	100.065	64.324	100.078
Algeria	(Dinar)	58.8188	38.0285	24.4457	38.0334
Andorra	(Fr Fr)	8.2580	5.3378	3.4312	5.3385
	(Sp Peseta)	200.948	129.921	83.5164	129.938
[illegible]					
Gambia	(Dalasi)	14.3162	9.2559	5.9499	9.2571
Germany	(D-Mark)	2.4061	1.6556	1	1.5558
Ghana	(Cedi)	1478.05	955.615	614.293	955.738
Gibraltar	(Gib £)	1.00	0.6465	0.4156	0.6466
Greece	(Drachma)	364.623	235.743	151.541	235.773
[illegible]					
Pakistan	(Pak. Rupee)	47.2647	30.5584	19.6436	30.5623
Panama	(Balboa)	1.5467	1	0.6428	1.0001
Papua New Guinea	(Kina)	1.4539	0.94	0.6042	0.9401
Paraguay	(Guarani)	2782.78	1799.16	1156.54	1799.39
Peru	(New Sol)	3.4522	2.2319	1.4347	2.2322
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Special Drawing Rights August 11, 1994 United Kingdom £0.940065 United States $1.44538 Germany DM2.29020 Japan Y146.417 European Currency Unit Rates August 12, 1994 United Kingdom £0.794500 United States $1.22985 Germany DM1.90841 Japan Y122.894

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (p) Public transaction rate; (o) Official rate; (p) preferential rate; (c) convertible rate; (t) parallel rate; (s) Selling rate; (t) Tourist rate; (u) Currencies fixed against the US Dollar; (v) Floating rate; § CIS applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Rwandan rate for 31.3.94. (3) Yemeni rates for 29.4.94. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.

Friday August 12, 1994

WORLD BOND MARKETS: This Week

NEW YORK — Richard Tomkins

Encouraging statistics showing that the consumer price index rose by only 0.3 per cent last month eased inflationary fears in the US at the end of last week, giving bonds an unexpected shot in the arm.

The benchmark 30-year Treasury bond shot up by nearly ¾ points, sending the yield down from 7.65 per cent to 7.49 per cent.

Nevertheless, the market remains convinced that an increase in interest rates is almost inevitable when the Federal Open Market Committee meets tomorrow.

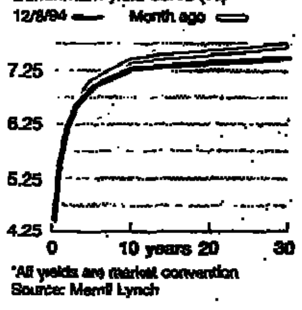
The reason is that, whatever the consumer price index may say, other economic data continue to point to inflationary pressures further back in the supply chain.

Many analysts believe that the Federal Reserve will feel compelled to choke these pressures off before they feed through into rising prices.

How big the increase will be is another matter. Some analysts seem to think that 25 basis points will be enough: but paradoxically, a 50 basis point rise might prove better for bonds, at least at the long end of the market.

Normally, higher interest rates cause bond prices to fall, but in this instance anything less than a 50 basis point increase might be seen as insufficient to ensure that inflation had been stifled, posing the threat of even higher interest rates to come.

US
Benchmark yield curve (%)*
12/8/94 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

LONDON — Peter Norman

The gilts market is facing this week in far better fettle than many analysts thought possible in the aftermath of last Thursday's Italian and Swedish interest rate rises.

A comparatively robust performance last Friday brought out buyers and there is a general belief that this week's crop of economic figures should sound no serious inflationary alarms. The market is more optimistic in spite of a rise in 10-year benchmark bonds yields to 8.64 per cent late on Friday from 8.4 per cent the week before.

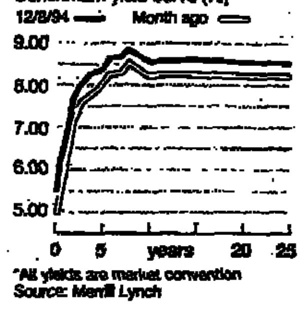
Mr Nigel Richardson, of Yamaichi International in London, expects the week to be split into two.

The first half will be overshadowed by fears of higher US rates from tomorrow's meeting of the Federal Open Market Committee.

Domestic issues will then take over, with Wednesday's retail price and average earnings data and Thursday's retail sales figures expected to provide further evidence of steady growth with low inflation.

Mr Simon Briscoe of S. G. Warburg believes the market could be thinking about funding questions by the end of the week. He predicts a positive reaction if the Bank of England decides against an August gilts auction, as this would suggest the public sector borrowing requirement poses few problems.

UK
Benchmark yield curve (%)*
12/8/94 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Christopher Parkes

The Swedish Riksbank's justification of its surprise rates rise with a claim that it had spotted four inflationary factors prompted a swift review in Germany. A weakening currency, cited by the Swedes, is not a problem in the federal republic.

Nor is the speedy global recovery causing concern. Dearer imports have slowed the fall in German consumer prices, but other factors, such as shrunken disposable incomes, are keeping inflation under control.

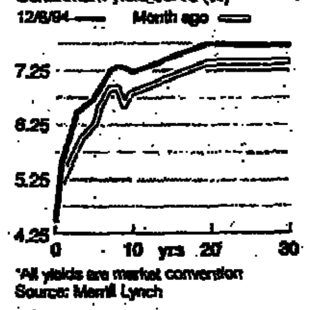
On the other hand, the Riksbank's identification of rising capacity utilisation in industry rang some bells. As Mr Adolf Rosenstock, economist at the Industrial Bank of Japan in Frankfurt, noted, this indicator is may soon over-step its long-term average of 83 per cent.

With this and the turnround in unemployment in mind, he says the Bundesbank will have to stay on guard. The IG Metall engineering union has already started making ominous noises about the need for a clear improvement in real pay.

While Mr Rosenstock marked last Thursday in his diary as the day Europe's latest spell of monetary easing came to an end, there were still voices suggesting the Bundesbank has further to go.

Optimists believe the central council will signal its attitude with a return to variable rate repos at its first post-holiday meeting this Thursday.

Germany
Benchmark yield curve (%)*
12/8/94 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

Uncertainty in European bond markets and profit-taking by domestic institutions ahead of the September book closing are expected to weigh on Japanese government bonds this week.

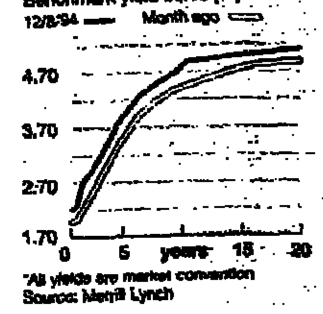
The higher yen supported bond prices last week on hopes of dampening prospects of an economic recovery, but such expectations were dashed by government comments that the economy was gradually pulling out of a slump.

Overall activity may be subdued as many investors are on their Obon holidays until mid-week. But traders say more banks are shifting their Japanese government bond portfolios into euroyen straight bond issues.

The moves come as the year's fall in government bond prices has left many financial institutions with unrealised losses. A Tokyo Stock Exchange disclosure rule requires listed companies to release unrealised losses on listed securities portfolios if the figure is equal to or more than 30 per cent of pre-tax or net profits.

Institutions reluctant to reveal their loss-making positions are switching into unlisted euroyen straight bonds from government bonds. "There is a big switch going on as the supply and demand situation for various classes of bonds are changing," says Mr Marshall Gittler, bond analyst at Merrill Lynch in Tokyo. He says the trend is raising yields in government bonds.

Japan
Benchmark yield curve (%)*
12/8/94 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

Capital & Credit / Conner Middelmann

Turning point in Europe's monetary cycle

Bond markets usually err on the side of pessimism, but they were not prepared for what hit them last week: the start of the monetary tightening cycle in Europe.

Just when it seemed that the worst had been discounted, Italy and Sweden raised their short-term rates, fuelling fears that interest rates elsewhere in Europe would soon start rising amid stronger than expected economic growth.

For the last seven months, bond investors have taken an almost unremitting pummelling: first by aggressive profit-taking after last year's sharp rally, then by earlier than expected US monetary tightening, and now by the spectre of rising European interest rates.

"We feel that these two rate rises, even though they reflect unique domestic circumstances, represent the turning point in the European interest rate cycle," says Mr Kit Juckes, international economist at S. G. Warburg Securities. "Against this backdrop, bond market sentiment is likely to deteriorate further and convergence is off the agenda for now."

The markets' reaction to the interest rate rises "suggests a continued bloody environment for bond investors worldwide", agrees Mr Edmond Warner, head of strategy and economics at Kleinwort Benson. "This is unlikely to clear up overnight."

By Friday, the yield on the German 10-year benchmark bond had jumped to 7.20 per cent, from 6.75 per cent a week earlier.

In the UK, which is further ahead in the economic cycle and tipped as one of the next tightening candidates, the 10-year yield rose to 8.60 per cent from 8.35 per cent.

Sweden's 10-year yield rose a whole percentage point from the previous week to 11.57 per cent on Friday, while Italy's 10-year yield rose to 11.70 per cent, from 10.80 per cent.

All eyes are now on the Bundesbank, which until recently had been widely expected to cut its 4.5 per cent discount rate at least once more. Even before the Italian and Swedish rate moves, however, strong economic data had prompted a reassessment of German easing prospects.

With July M3 money supply growth still in double digits and inflation little changed, many feel the Bundesbank lacks justification for a rate cut when it returns from its summer break.

Later into the autumn, the October federal elections may further cramp the room for manoeuvre for a central bank keen on preserving its reputation of political independence.

"We would not rule out a technical ¼-point discount rate cut but to all intents and purposes, money rates in Germany have reached the bottom," says Mr Juckes. Even if key rates were lowered again, that would do little to boost markets, which will regard them as the last cuts in the cycle and will start anticipating the inevitable rise in rates.

In this environment, bond investors will have to continue negotiating highly volatile markets, where bearish sentiment may occasionally be interrupted by violent bear squeezes.

Heavy issuance is also likely to weigh on sentiment. Germany, one of the laggards on the funding front, still has some DM110bn of net public-sector borrowing outstanding. This week alone will see new two- and five-year supply in France, a sale of five-year notes in Germany and bond auctions in Italy and Sweden.

In this context, some say it is best to lie low. "In this environment you have to be reactive – don't try to second-guess the market," advises Mr Bob Tyley, senior strategist at Paribas Capital Markets. "Investors should let the market calm down and then decide what offers value."

Until then, some may wish to keep some of their funds in cash until the outlook clears; indeed, investors whose priority has become capital preservation have been building up cash holdings in recent months.

Many bond managers certainly appear to be playing safe. "We're keeping very cautious in this environment and are pursuing a defensive strategy," says Mr Heinz Fesser, head of fixed income at DWS, Deutsche Bank's investment subsidiary.

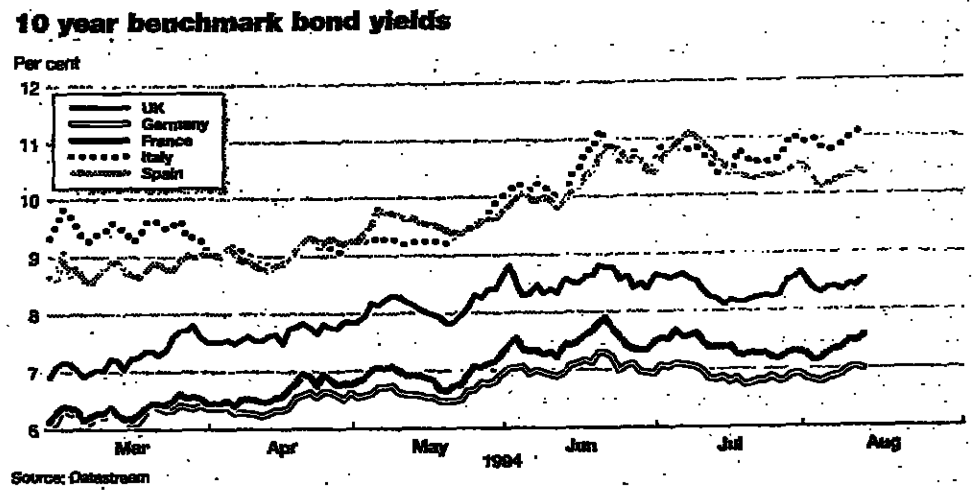
This involves "being partly hedged in our foreign currency exposure, holding no extremely long-dated bonds and keeping a substantial percentage of our funds in cash." DWS has been building up its cash holdings in recent months, he adds.

While the peripheral, high-yielding bond markets are likely to remain volatile, many feel that German government bonds, traditionally a safe haven in times of market turmoil, offer relative stability.

"Bunds are the best of a bad bunch," says Warburg's Mr Juckes. While he says 10-year yields may spike close to 7.5 per cent, he expects other markets' yield spreads over Germany to widen out even further, making Germany a safe bet at least in relative terms.

An even better strategy, he suggests, may be to get out of Europe altogether and head for the dollar bloc. "The advantage of the dollar bloc is that they're further through the rate rise cycle and have discounted much more."

10 year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	3.50	1.75	4.50	6.40[1]	7.50	5.25[2]
Overnight	4.13	2.38	4.75	5.25	8.25	4.75
Three month	5.57	2.25	4.88	5.68	9.50	5.50
One year	6.93	2.59	5.22	6.25	10.38	6.69
Five year	7.27	4.02	6.75	7.43	11.88	8.34
Ten year	7.48	4.66	7.19	7.73	11.67	8.58

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	102-00	102-25	+0-23	102-31	101-23	489,953	355,125
Dec	101-07	102-00	+0-22	102-05	100-29	5,985	79,863
Mar	100-09	101-09	+0-22	101-13	100-09	370	4,576

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 14.08.94 Pool purchase price £/MWh	Final Prices for Trading on 17.07.94 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.58	11.03	12.89
0100	9.55	10.05	10.05
0130	9.50	9.81	9.81
0200	9.50	9.60	9.60
0230	9.60	9.58	9.58
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©Energy Settlements and Information Services Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 15.08.94 Pool purchase price £/MWh	Final Prices for Trading on 18.07.94 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.67	10.55	10.65
0100	9.54	9.61	9.61
0130	9.54	9.61	9.61
0200	9.54	9.61	9.61
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International / Tracy Corrigan

Australian sector braced for rate rise

The Australian government bond market is braced for a rise in interest rates – but then, it has been for the last four months, at least. However, analysts argue that economic forces are now overwhelming any political pressure to delay raising rates.

So far, the Australian authorities have been able to fend off pressure to raise rates because the Australian economy has been relatively slow to pull out of recession.

"The Reserve Bank of Australia has made it clear that it agrees with the need to increase interest rates," said Mr Michael Gallagher, director of research at IDEA, the market analysis specialist, "but has been concerned about relatively modest growth in business investment." In addition, high unemployment and a depressed property market have helped fend off rate increases.

However, economic growth has now accelerated: in fact, at an estimated 4.5 per cent in 1994, it has overtaken the US.

The latest employment data showed a jump of 90,000 jobs in July, compared with an average increase of 17,000 a month over the last six months, and a drop in the unemployment rate to 9½ per cent from 10 per cent.

"We expect a 50 basis point rate hike towards the end of September," says Mr Paul Donovan, bond analyst at UBS. "The Reserve Bank is not independent, and politically there have been mixed pressures. It will probably come in reaction to a US hike."

Because the Australian dollar is closely tied to the US dollar, the Australian bond market tends to track the US treasuries market. However, despite a series of interest rate rises by the US authorities, the Australian government bond market has substantially underperformed the US market.

The yield differential between the two markets has widened from 80 basis points at the beginning of April to its current level of more than 200 basis points.

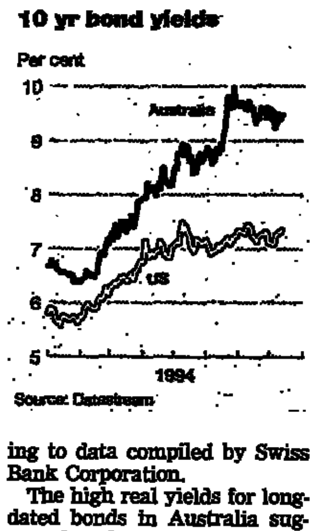
The Australian market has already discounted a series of rate increases. Overnight cash rates, set by the authorities, are currently 4¾ per cent while six-month bill rates have risen to 6.2 per cent.

So why is the market so bearish? The answer appears to be that inflationary fears have taken hold, and the country's poor record on inflation has undermined confidence in the bond market.

Certainly, with inflation at 1.7 per cent and 10-year bond yields at 9.5 per cent, the market appears to offer attractively high real yields – among the highest of the developed markets.

Only Sweden and Canada offer higher real yields, but they both have high debt to GDP ratios of more than 67 per cent, compared with only 33 per cent for Australia, according to data compiled by Swiss Bank Corporation.

10 yr bond yields



Source: Datastream

The high real yields for long-dated bonds in Australia suggest that the market is expecting inflation to rise sharply.

Indeed, factors such as the recovery in the housing market and increases in raw material prices could soon boost inflation, according to some analysts, while the strength of the Australian dollar, supported by strong commodity prices, could fuel imports.

However, according to analysts at SBC, wages remain the key to inflation and "there are few signs of any significant inflation pressures in the economy. The main concern is the legitimacy of the productivity offsets agreed between unions and businesses to support wage increases [which are] generally well above underlying inflation."

For bond investors, most analysts continue to advise caution, in spite of attractive real yields relative to other markets.

"Australia looks like a bear market and that is not going to change, but there is some room to outperform other markets," says Mr Donovan. "A rate hike could be supportive."

Australian bonds are largely held by domestic investors, but because of the relatively small size of the market, marginal foreign interest can have a strong impact on prices.

One potential source of funds is Japan, where the weakened yen has led Japanese investors to look again at the dollar bloc.

However, with the Australian market virtually insisting on a rate rise and 10-year bond yields apparently heading towards double-digit levels, most investors are likely to hold off a while longer.

One danger is that they will instead choose the New Zealand market, which has performed well until recent political worries.

According to some analysts, international investors may favour New Zealand because of its highly independent central bank and the fact that it is an improving credit, even though 10-year yields, at 8.33 per cent, are substantially lower than in Australia.

The outlook for the New Zealand market largely depends on whether the political situation stabilises after the weekend's Selwyn by-election.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
LB Rheinland-Pfalz	300	Sep.1997	6.75	99.592R	6.905	+24 (6¾% 3yr)	Goldman/ Lehman Asia
Edesur‡	50	Aug.1997	(b)	100.00R	-	-	Bear Stearns Intl.
ALPS 94-1, Class A1(a,l)‡	172	Sep.2004	(f1)	100.00R	-	-	Lehman Brothers Intl.
ALPS 94-1, Class A2(a,l)	139	Sep.2004	7.15	99.875R	7.458	+100 (7¾%-96)	Lehman Brothers Intl.
ALPS 94-1, Class A3(a,l)‡	156	Sep.2004	(f2)	99.4375R	-	-	Lehman Brothers Intl.
ALPS 94-1, Class A4(a,l)	140	Sep.2004	7.80	99⅞R	8.112	+107(4¼%-98)	Lehman Brothers Intl.
ALPS 94-1, Class B1(a,l)‡	44	Sep.2004	(f3)	100.00R	-	-	Lehman Brothers Intl.
ALPS 94-1, Class B2(a,l)	44	Sep.2004	8.20	99.82⅛R	8.568	+150(5⅛%-98)	Lehman Brothers Intl.
ALPS 94-1, Class C(a,l)	87	Sep.2004	9.35	99⅞R	9.602	+262½(5½-98)	Lehman Brothers Intl.
Bayerische Landesbank(l)	200	Sep.1998	7.00	99.94R	7.016	+12½ (l)	Swiss Bank Corp.
World Bank★	200	Aug.1999	4.50§	91.976	6.401	-	Nomura International
Banco Ganadero(g)	125	Aug.1999	9.75§	99.578R	9.859	+290(6¾%-99)	Citibank International
Federal Home Loan Banks(k)‡	55	Sep.1999	(n1)	100.00	-	-	Sakura Finance Intl.
MBNA Mstr Tst II, Cls A(n)‡	870	Jan.2002	(m1)	100.00R	-	-	Merrill Lynch Intl.
MBNA Mstr Tst II, Cls B(n)‡	45	Jan.2002	(n2)	100.00R	-	-	Merrill Lynch Intl.
YEN							
International Finance Corp.(a)	20bn	Mar.1997	3.25	100.1⅛R	-	-	Fuji Intl. Finance
Province of Nova Scotia(k)	15bn	Aug.2014	5.50	100.00	5.500	-	Yamaichi Intl.(Europe)
LB Rheinland Pfalz(a)	10bn	May.1997	3.20	100.00	-	-	Salomon/Sumitomo Fin.
Australian Wheat Board(a)	10bn	Mar.1997	3.25	100.00	-	-	CS First Boston
STERLING							
Royal Bank of Scotland‡	150	Sep.1998	(l)	100.00R	-	-	SG Warburg Securities
D-MARKS							
LW Rentenbank‡	100	Sep.1998	(m)	99.90R	-	-	Morgan Stanley Fin.
CANADIAN DOLLARS							
European Investment Bank	200	Sep.2004	9.125	99.422R	9.215	+5 (6½%-04)	BZW
Republic of Finland	200	Sep.2004	9.50	98.845R	9.525	+27½(6½-04)	Paribas/ SBC

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
ITALIAN LIRE							
WestLB Europa(l)	150bn	Sep.1998	10.60	101.60	10.09	-	Swiss Bank Corp.
GUILDERS							
ING Group(d)	500	Jun.2004	7.125	98.60R	7.325	+32 (5¾%-04)	ING Bank
AUSTRALIAN DOLLARS							
Queensland Treasury Corp.★	100	Aug.1997	4.50§	91.097	7.891	-	Nomura International
Ford Credit Australia	75	Sep.1999	9.625	101.84	9.201	-	Macquarie Bank
Crédit Local de France	100	Sep.2000	9.375	101.375	9.068	-	BZW
SWISS FRANCS							
Mitsubishi Kakoki(b)★★Φ	100	Aug.1998	0.50	100.00	-	-	Nikko Bank (Switz.)
Aderans Co.(l,c)★★§	100	Aug.1998	0.875§	100.00	-	-	Nikko Bank (Switz.)
Europäische Hypobank	100	Sep.1998	5.375	102.625	4.848	-	Deutsche Bk.(Schweiz)
Rabobank Nederland	100	Sep.1997	5.125	102.25	4.317	-	Merrill Lynch Cap.Mkts.
LUXEMBOURG FRANCS							
Sanfinance Luxembourg	2bn	Sep.2000	7.375	101.80	6.997	-	BGL
Republic of Finland	5bn	Sep.2004	8.00	102.30	7.662	-	BIL

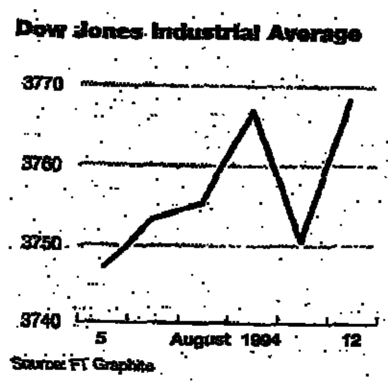
Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. ΦWith equity warrants. ★★Private placement. ★Unlisted. [illegible]

ممكن اوين الاصل

EQUITY MARKETS: This Week

NEW YORK — Patrick Harverson

Wall St braced for another tightening



Source: FT Graphite

All eyes this week will be on the Federal Reserve as Wall Street braces itself for another possible increase in interest rates.

Ever since the Fed first raised interest rates in early February, the market has suffered attacks of nerves before each meeting of the central bank's policy-making open market committee (FOMC).

Tomorrow, the FOMC meets to decide whether there is a need for a further tightening of monetary policy to slow the economy and restrain inflation.

Wall Street's nerves will be on edge once again, primarily because interest rates have been increased four times this year, and few believe that more increases are not around the corner.

The stock market, now firmly entrenched in the midsummer doldrums, will be waiting with baited breath for the FOMC's pronouncements.

Judging by the most recent economic data, the majority of analysts believe the FOMC will signal an increase in interest rates this week.

If there is a broad consensus on Wall Street about the likelihood of a rate increase, there is still considerable debate over which interest rate it will put up, and by how much.

Some analysts, believing that the Fed remains cautious about stepping too hard on the brakes, predict that the FOMC will tighten policy by raising its target for the Federal funds rate by just 25 basis points, which would take it to 4.5 per cent.

Others, however, feel differently. In light of recent comments by the Fed's chairman, Mr Alan Greenspan, the pessimists say the central bank is increasingly concerned about the outlook for inflation, and predict that it will not only raise the Fed funds target by 50 basis points, to 4.75 per cent, but will also raise the discount rate, from 3.5 per cent to 4 per cent.

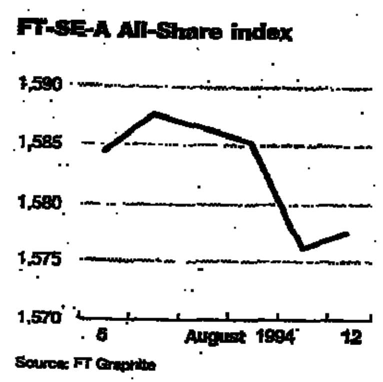
The size and nature of any tightening is critical because it will determine whether the financial markets, and the stock market in particular, will be able to ride out a rate increase without incurring losses.

Because expectations of a rate increase have been building up on Wall Street for weeks, a 25 basis point upward move in the Fed funds rate is already priced into bonds and stocks. So, if the Fed does nudge rates higher, stock and bond prices should hold their ground.

A 50 basis point increase, however, could unsettle shares, which have slavishly followed the lead set by bond prices for the past few months. If an unexpectedly large rate increase inflicts enough damage to investor sentiment, the Dow Jones Industrial Average – which has climbed erratically from around 3,650 in early July to over 3,770 – faces the prospect of slipping back below the 3,700 level.

LONDON — Terry Byland

Differing views on market influences



Source: FT Graphite

The debate over the market influences of rising corporate earnings and dividends as against the probability of higher interest rates has now moved into closer focus. While the factors behind the moves last week to raise rates in Italy and Sweden may have been largely domestic, there was no gainsaying the warning delivered to the UK market.

Even after allowing for the widespread predictions of base rate rises already circulating among London market analysts, there has been a rush to reassess the situation. But, once the shock of the Swedish and Italian moves had passed, opinions on the UK market outlook were by no means as black as might have been expected.

The widely held perception that the UK market is particularly vulnerable because the UK is at the head of the queue for a rate increase may not be correct, according to Mr Albert Edwards at Kleinwort Benson Securities. He comments that the latest survey of rate forecasts suggests that the threat of higher rates will be much more of a shock to continental European markets than to London.

It has been suggested that UK equities may suffer less than mainland European shares, because of the relative ratings of the various equity markets. UK markets have already enjoyed a year of rapid earnings growth, while continental European markets are still at a much earlier stage of recovery.

S.G. Warburg touches the same point but stresses that growth in continental Europe is now accelerating and that this has brought "significant upward revisions" in gross domestic product forecasts for Germany and France.

For UK stocks, this throws even greater emphasis on those shares offering exposure to European growth, a sector picked out earlier this year by BZW. Some of these, especially the UK construction groups with interests in Germany, have already moved strongly against the trends of the UK market. However, their performance has in part reflected optimism for one last easing in Bundesbank rates, and last week's interest rate developments may restrain them for a while.

Of the European-influenced builders, Redland, with 65 per cent of operating profits taken from mainland Europe, outperformed the market by 7.8 per cent over the past three months but its lead all but vanished last month. RMC, 68 per cent influenced by continent Europe, has followed a similar pattern but retains a 16.9 per cent outperformance over the 12 months.

Top of Warburg's list is Waste Management International, with 75 per cent of operating profits from continental Europe. On this basis, the share has been overlooked, lagging the market by 6.7 per cent over one month and 6.2 per cent over 12 months.

International offerings / John Ridding

Paris fine-tunes timing for Renault privatisation

As preparations for the privatisation of Renault gather momentum, share analysts and investors are running their slide rules over the French state-owned motor vehicle group.

For the most part, they like what they find. "It is an attractive company," says Mr Eric Michelis, motor vehicles analyst at Kleinwort Benson in Paris. He predicts strong interest in shares in the only significant public sector vehicle group in the western world.

Before interest can be turned into equity, however, there remain a number of important questions. Most obvious is the timing of any operation. The political sensitivity involved in the sale of Renault, a symbol of state ownership and an erstwhile union stronghold, means that the French government is approaching the planned privatisation with great caution.

While officials at the economics ministry acknowledge that the preparations are now in place for a privatisation this autumn, they say that no decision has yet been taken, and point out that Assurances Générales de France, the insurance group, is also prepared for sale.

A second uncertainty concerns the scale of the operation. The centre-right government has given little indication concerning how much of its 80 per cent stake it is seeking to sell, except to say that it will not reduce its holding below a 34 per cent minority blocking stake.

The retention of a substantial stake by the French government is not welcomed by some potential investors. "Ideally, it is better for the investment community if we see a total privatisation," says one US fund manager. He says that a complete sale of the state's holding would ease concerns that the government might still seek to influence decisions at the company, concerning, for example, the protection of jobs and industrial alliances.

For most investors, however, the continued presence of the French government on the shareholder register does little to dampen the attraction of Renault's privatisation. This is partly because of the fundamental strengths of the group, and also because of the present stage in the industry cycle.

In terms of financial results, the company has staged a remarkable turnround since the mid-1980s, when a series of heavy losses earned it a reputation as the sick man of the European industry. It was one of the few vehicle manufacturers to remain profitable during the recession in the sector over the past few years, and is expected to report a sharp increase this year on the net profits of FFr1.1bn ($206m) achieved in 1993.

As a study by Lehman Brothers argues, the emerging recovery in the market also makes a Renault sale an attractive proposition this year. This, and Renault's relative diversification – unlike Volkswagen and Peugeot, it also builds trucks – prompts Lehmans to value the company at between FFr55bn and FFr60bn, above many earlier estimates.

The ultimate valuation decided by the French government, and hence the price per share attached to the company, will clearly determine the attractiveness of the investment. But the sensitivity of the sale, and the French government's interest in gaining momentum for its programme to sell 21 state-owned groups, suggest an attractive price is likely.

"With the presidential elections looming and with harder privatisations to come, this has to be a success," says one analyst at a Paris-based merchant bank. "They won't be taking any chances with the pricing."

As in some of the previous privatisation issues, however, the frustration for foreign investors may be the limited tranche of shares for which they may apply.

OTHER MARKETS

FRANKFURT

Market professionals have been looking forward eagerly to the second-quarter reports from the "big three" chemical groups, with BASF kicking off on Thursday, and Bayer and Hoechst due next week. A Goldman Sachs report on the sector notes that BASF's first-quarter pre-tax profit was 47 per cent ahead of the year-earlier period, helped by 4 per cent volume growth. The evidence, it says, is that recovery momentum in the industry gathered pace in the second quarter.

On the same day, the Bundesbank holds its regular fortnightly meeting. For most of last week, German and other banks were divided on the prospects for a further interest rate cut. After Thursday's rate rises in Sweden, and Italy, the question was whether other European countries would follow this lead; but Merrill Lynch said that the next German interest rate rise could be more than a year away.

STOCKHOLM

Shuddering after its own rate rises, Sweden should field half-year reports from Electrolux tomorrow, and Ericsson on Thursday. UBS reckons that, for the latter, analysts will focus on news of the order book.

For Electrolux, Unibors Securities says the group's two main US competitors in the white goods manufacturing sector, Whirlpool and Maytag, have respectively reported earnings up by 50 per cent, and operating profits up by 300 per cent for the first half of 1994. Unibors is looking for a 40 per cent growth in operating profit at Electrolux, and earnings to outpace this over the full year due to greater production efficiency.

MILAN

Initial dealings in Telecom Italia are expected to begin on Thursday. This is the successor company to Sip, Italcable, Telespazio, Iritel and SIRM, in the final phase of the restructuring of the Italian telecoms sector. Sip shareholders get a one-for-one share exchange, but Mr Evan Miller at Lehman Brothers says the creation of Telecom Italia will immediately enhance earnings per share prospects.

Telecom Italia will be the world's sixth largest telecommunications company, with a turnover of L27,000bn and net profit of L1,025bn in 1993.

ZURICH

SBC joins the run of Swiss banking results tomorrow with analysts wondering what to expect, after the 68 per cent drop in trading income at its competitor, UBS. Forecasts last week ranged from SFr545m to SFr950m, compared with SFr1.55bn for the first half of 1993.

The following day brings interims from CS Holding. Its principal operating subsidiary, Credit Suisse, has already reported a 27 per cent decline in gross profits before tax and provisions, notes Hoare Govett, which thinks that a net profit of SFr700m for the group, against SFr882m previously, would be a reasonable result.

AMSTERDAM

Offerings here include first-half results from Nedlloyd, the global transport group. Brokers expect profits for the second quarter to be around Fl 25m against a loss of Fl 30m in the second quarter of 1993.

HONG KONG

The Hong Kong stock market was bracing itself last week for a dose of bad news from today's release of interim results at HSBC Holdings, the biggest constituent stock in the benchmark Hang Seng Index. HSBC itself fell 4.4 per cent over the full week, *writes Louise Lucas in Hong Kong.*

Analysts are looking at pre-tax profit rises of anywhere between 10 per cent and 20 per cent for the banking group, but there are fears that even the lowest projections may not be met following the lower than expected earnings reported by Standard Asia's Hong Kong operations last Wednesday.

TOKYO

With investors returning from their holidays around mid-week, brokers are expected to start active stock promotion campaigns, *writes Emiko Terazono in Tokyo.*

"With trading volumes depressed for the past few months, the salesmen want to pick things up before the September book closing to boost profits," says Mr Yasuo Ueki at Nikko Securities.

The 21,000 level is likely to continue to be a technical resistance point. However, brokers say that many banks and financial institutions are already in their last stages of realising profits on their stock portfolios ahead of September 30, and expect profit-taking to be light.

PARIS

Wednesday is the final day on which Générale des Eaux should decide whether to exercise its pre-emptive rights to acquire a majority stake in Fnac, the French music and book retailer which, otherwise, will see a controlling stake sold by Crédit Lyonnais to Mr François Pinault, the entrepreneur.

Compiled by William Cochrane

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Aug 12 / Sch)

BELGIUM/LUXEMBOURG (Aug 12 / Frs.)

DENMARK (Aug 12 / Kr)

FINLAND (Aug 12 / Mkt)

FRANCE (Aug 12 / Frs.)

GERMANY (Aug 12 / Dm.)

ITALY (Aug 12 / Lire)

NETHERLANDS (Aug 12 / Frs.)

NORWAY (Aug 12 / Kroner)

SPAIN (Aug 12 / Pts.)

SWEDEN (Aug 12 / Kroner)

SWITZERLAND (Aug 12 / Frs.)

PACIFIC

JAPAN (Aug 12 / Yen)

HONG KONG (Aug 12 / H.K.$)

MALAYSIA (Aug 12 / MYR)

SINGAPORE (Aug 12 / S$)

AUSTRALIA (Aug 12 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Aug 12 / Can $)
4 pm close

MONTREAL (Aug 12 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Aug 12 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, August 12, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	7.6m	371	-1	Sumitomo Cement	2.6m	560	
Showa Denko	3.3m	374	+5	Sumitomo Mtl Ind	2.6m	320	-4
Kawasaki Steel	3.1m	414	-2	Kobe Steel	2.4m	314	+1
Mitsubishi Matl	2.9m	552	+1	Sanwa Shutter	2.4m	898	-2
Mitsubishi Hvy	2.6m	806	+3	Hitachi	2.4m	995	-5

INDICES

US INDICES

Dow Jones	Aug 12	Aug 11	Aug 10	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3768.71	3750.90	3766.76	3978.36 (31/1)	97.54 (28/7)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.92	97.83	97.97	105.61 (21/1)	98.43 (13/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1600.60	1592.09	1603.59	1862.29 (2/2)	1546.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	188.97	187.65	189.36	227.06 (3/1)	176.71 (24/6)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3792.66 (3785.86) Low 3738.27 (3728.56) (Theoretical♦)
Day's high 3773.89 (3773.89) Low 3750.25 (3736.66) (Actual♦)

Standard and Poors	Aug 12	Aug 11	Aug 10	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	461.95	458.88	460.30	482.00 (2/2)	438.92 (4/4)	534.19 (29/7/94)	4.40 (1/6/32)
Industrials♥	538.51	534.76	536.53	569.59 (2/2)	510.05 (21/4)	569.69 (2/2/94)	3.62 (21/6/32)
Financial	45.53	45.08	45.15	46.94 (14/6)	41.39 (4/4)	48.46 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	254.77	253.31	254.20	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	443.70	443.25	443.87	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	731.61	728.20	728.20	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Aug 5	Jul 29	Jul 22	Year ago
Dow Jones Ind. Div. Yield	2.72	2.72	2.74	2.87
	Aug 10	Aug 3	Jul 27	Year ago
S & P Ind. Div. yield	2.43	2.42	2.45	2.52
S & P Ind. P/E ratio	23.51	23.55	23.13	25.14

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	458.40	462.65	+4.25	462.90	457.20	72,739	197,034
Dec	-	465.25	+4.30	465.35	461.60	1,818	18,745
Mar	-	468.60	+4.30	468.60	468.10	701	3,890

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Syntex	7,385,800	21⅛	-1
Eli Lilly	3,928,600	52½	-¼
Telefonos	3,909,300	63⅝	+½
Gen Elec	2,777,000	49	+⅜
Exxon	2,604,700	60¼	+2¼
Wal-Mart	2,438,300	24	-⅛
Compaq	2,188,800	35	–
IBM	2,000,500	63¾	-⅝
West Elec	1,977,300	12	+⅛
Merck	1,976,100	32⅛	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Aug 12	Aug 11	Aug 10
New York SE	249.200	275.677	279.474
Amex	13.840	16.484	17.847
NASDAQ	[illegible]	303.411	326.433
NYSE			
Issues Traded	2,823	2,831	2,846
Rises	1,235	727	1,189
Falls	815	1,383	941
Unchanged	773	721	716
New Highs	30	28	53
New Lows	45	71	51

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

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OTHER UK UNIT TRUSTS

INSURANCES

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Scottish Mutual Assurance plc - Contd.

	Bid Price	Offer Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Scottish Provident Group

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

[illegible]

OFFSHORE INSURANCES

[illegible]

Century Life International Ltd

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lazard Freres Asset Management (CI) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

Coutts & Co Fund Managers Limited

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds

[illegible]

HSBC Investment Funds Luxembourg SA (u)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

Israel Selection Fund

[illegible]

"WINTERTHUR" Fund Mngmt Co (Lux) SA

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

Ermitage Group

[illegible]

Jardine Fleming Unit Trusts Ltd - Contd.

[illegible]

Putnam Emerging Funds Ltd

[illegible]

MANAGED FUNDS NOTES

[illegible]

تكملة من الأصل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Aug 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.9320	-0.1881	263 - 386	17.2888	16.8757	16.9276	0.3	16.9158	0.4	-	-	115.8
Belgium	(BFr)	49.6073	-0.509	714 - 431	50.3250	49.5000	49.5973	0.2	49.5723	0.3	49.7123	-0.2	117.0
Denmark	(DKr)	9.5442	-0.0719	411 - 473	9.6047	9.5186	9.5467	-0.6	9.5583	-0.6	9.6112	-0.7	116.7
Finland	(FM)	8.0055	-0.0303	984 - 145	8.0230	7.9560	-	-	-	-	-	-	82.7
France	(FFr)	8.2560	-0.0747	531 - 588	8.3019	8.2368	8.2592	-0.5	8.2583	-0.1	8.2266	0.4	110.5
Germany	(DM)	2.4061	-0.0267	051 - 070	2.4180	2.3973	2.4065	-0.2	2.4029	0.5	2.3782	1.3	126.8
Greece	(Dr)	364.623	-3.237	332 - 914	368.055	363.383	-	-	-	-	-	-	-
Ireland	(I£)	1.0159	+0.0021	152 - 166	1.0213	1.0059	1.016	-0.1	1.0161	-0.1	1.0165	-0.1	104.0
Italy	(L)	2463.33	+23.06	836 - 029	2478.52	2444.10	2479.23	-4.8	2495.58	-4.3	2533.33	-2.6	74.4
Luxembourg	(LFr)	49.6073	-0.509	714 - 431	50.3250	49.5000	49.5973	0.2	49.5723	0.3	49.7123	-0.2	117.0
Netherlands	(Fl)	2.7028	-0.0309	016 - 040	2.7148	2.6937	2.7031	-0.2	2.699	0.6	2.6689	1.3	121.0
Norway	(NKr)	10.5861	-0.0931	828 - 893	10.6367	10.5579	10.5931	0.3	10.5936	-0.3	10.5796	0.1	86.6
Portugal	(Es)	247.232	-0.154	960 - 504	247.742	244.569	248.962	-8.4	252.142	-7.9	-	-	-
Spain	(Pta)	200.949	+0.235	800 - 097	201.408	199.704	201.484	-3.2	202.244	-2.6	204.729	-1.9	85.8
Sweden	(SKr)	12.0451	-0.0413	373 - 528	12.1425	11.9999	12.0686	-2.1	12.1171	-2.4	12.3376	-2.4	73.1
Switzerland	(SFr)	2.0204	-0.0291	186 - 212	2.0341	2.0112	2.0188	0.9	2.0146	1.2	1.9819	1.9	122.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.1
Ecu	-	1.2657	-0.0094	652 - 661	1.2704	1.2615	1.2667	-0.9	1.2675	-0.6	1.2667	-0.1	-
SDR†	-	0.940085	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5452	+0.0133	449 - 455	1.5501	1.5431	-	-	-	-	-	-	-
Brazil	(R$)	1.4028	+0.0287	010 - 046	1.4065	1.3992	-	-	-	-	-	-	-
Canada	(C$)	2.1363	+0.0248	356 - 370	2.1468	2.1332	2.1367	-0.3	2.1374	-0.2	2.1483	-0.6	85.9
Mexico	(New Peso)	5.2532	+0.0441	500 - 564	5.2646	5.2482	-	-	-	-	-	-	-
USA	($)	1.5467	+0.0139	464 - 469	1.5517	1.5445	1.5459	0.6	1.5438	0.7	1.5327	0.9	63.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0843	+0.0311	833 - 853	2.0912	2.0758	2.0843	0.0	2.0858	-0.2	2.1037	-0.9	-
Hong Kong	(HK$)	11.9531	+0.11	504 - 558	11.9911	11.9374	11.9492	0.4	11.9461	0.2	11.9551	0.0	-
India	(Rs)	48.5204	+0.4419	067 - 340	48.6770	48.4590	-	-	-	-	-	-	-
Japan	(Y)	154.850	-0.334	583 - 736	155.310	154.020	154.23	3.3	153.315	3.5	148.465	4.0	188.3
Malaysia	(M$)	3.9536	+0.0274	521 - 550	3.9727	3.9456	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5748	+0.0212	722 - 773	2.5844	2.5680	2.5787	-1.8	2.5865	-1.8	2.6088	-1.3	-
Philippines	(Peso)	40.5997	+0.4032	064 - 929	40.8929	39.8424	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8005	+0.0521	993 - 016	5.8192	5.7926	-	-	-	-	-	-	-
Singapore	(S$)	2.3285	+0.0194	273 - 296	2.3353	2.3260	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5498	+0.0146	477 - 518	5.5658	5.5332	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.0063	-0.1164	897 - 229	7.1836	6.9469	-	-	-	-	-	-	-
South Korea	(Won)	1248.29	+10.13	578 - 680	1250.05	1244.87	-	-	-	-	-	-	-
Taiwan	(T$)	40.9182	+0.3517	054 - 310	41.0456	40.8661	-	-	-	-	-	-	-
Thailand	(Bt)	38.6895	+0.2635	677 - 112	38.7980	38.6430	-	-	-	-	-	-	-

†SDR rate for Aug 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.9475	-0.222	450 - 500	10.9975	10.8960	10.9477	0.0	10.9475	0.0	10.8625	0.8	104.3
Belgium	(BFr)	32.0740	-0.623	560 - 920	32.5200	31.9540	32.099	-0.9	32.154	-1.0	32.922	-0.7	105.8
Denmark	(DKr)	6.1709	-0.1029	699 - 719	6.2086	6.1499	6.1784	-1.5	6.1934	-1.5	6.3413	-1.1	104.8
Finland	(FM)	5.1760	-0.0667	710 - 810	5.1965	5.1363	5.18	-0.9	5.188	-0.9	5.3027	-1.1	77.4
France	(FFr)	5.3380	-0.0971	370 - 390	5.3640	5.3172	5.343	-1.1	5.35	-0.9	5.4058	0.5	106.2
Germany	(D)	1.5557	-0.0315	553 - 560	1.5634	1.5485	1.5563	-0.4	1.5585	-0.2	1.5812	0.4	107.0
Greece	(Dr)	235.750	-4.25	600 - 900	237.900	234.850	236.14	-2.0	236.925	-2.0	244.5	-1.9	68.5
Ireland	(I£)	1.5225	+0.0106	217 - 232	1.5365	1.5157	1.5213	0.9	1.5191	0.9	1.4976	0.9	-
Italy	(L)	1596.57	+0.57	620 - 693	1599.80	1580.50	1603.87	-5.5	1616.52	-5.0	1652.9	-3.6	75.8
Luxembourg	(LFr)	32.0740	-0.623	560 - 920	32.5200	31.9540	32.099	-0.9	32.154	-1.0	32.922	-0.7	105.8
Netherlands	(Fl)	1.7475	-0.036	470 - 480	1.7560	1.7393	1.7481	-0.4	1.7468	0.2	1.7773	0.4	105.4
Norway	(NKr)	6.8445	-0.1163	435 - 455	6.8735	6.8175	6.8485	-0.7	6.8575	-0.8	6.9113	0.7	96.6
Portugal	(Es)	159.850	-1.55	700 - 000	160.130	157.950	160.935	-8.1	162.675	-7.1	170.65	-5.7	95.5
Spain	(Pta)	129.925	-1.025	850 - 000	130.190	129.050	130.34	-3.8	131.005	-3.3	134.605	-2.8	81.0
Sweden	(SKr)	7.7879	-0.0976	841 - 916	7.8450	7.7434	7.8059	-2.8	7.8394	-2.6	8.0905	-2.6	78.0
Switzerland	(SFr)	1.3083	-0.0308	080 - 088	1.3157	1.2986	1.308	0.3	1.3049	0.4	1.3239	1.0	106.5
UK	(£)	1.5467	+0.0139	464 - 469	1.5517	1.5445	1.5459	0.6	1.5438	0.7	1.5188	0.9	87.7
Ecu	-	1.2221	+0.02	218 - 223	1.2287	1.2189	1.2205	1.6	1.2181	1.3	1.2122	-0.8	-
SDR†	-	1.44639	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9991	-0.0004	990 - 991	0.9991	0.9990	-	-	-	-	-	-	-
Brazil	(R$)	0.9070	+0.0105	060 - 080	0.9090	0.9010	-	-	-	-	-	-	-
Canada	(C$)	1.3813	+0.0037	810 - 815	1.3845	1.3805	1.3823	-0.9	1.3848	-1.0	1.4018	-1.5	82.9
Mexico	(New Peso)	3.3965	-0.002	950 - 980	3.3980	3.3950	3.3975	-0.4	3.3993	-0.3	3.4067	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3477	+0.0082	473 - 481	1.3490	1.3421	1.3479	-0.2	1.3486	-0.3	1.356	-0.6	89.7
Hong Kong	(HK$)	7.7284	+0.0017	279 - 289	7.7290	7.7263	7.7282	0.0	7.7289	0.0	7.7439	-0.2	-
India	(Rs)	31.3713	+0.0038	675 - 750	31.3875	31.3675	31.4563	-3.3	31.6013	-2.9	-	-	-
Japan	(Y)	99.990	-1.125	950 - 030	100.400	99.480	99.77	2.6	99.31	2.7	96.865	3.1	148.5
Malaysia	(M$)	2.5562	-0.0053	557 - 567	2.5660	2.5530	2.547	4.3	2.5357	3.2	2.6092	-2.1	-
New Zealand	(NZ$)	1.6647	-0.0013	633 - 661	1.6678	1.6617	1.6658	-0.7	1.6675	-0.7	1.6728	-0.5	-
Philippines	(Peso)	26.2500	+0.025	000 - 000	26.5000	26.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 505	3.7505	3.7502	3.7517	-0.4	3.7558	-0.6	3.7744	-0.6	-
Singapore	(S$)	1.5055	-0.001	050 - 060	1.5060	1.5040	1.5042	1.1	1.5023	0.9	1.4955	0.7	-
S Africa (Com.)	(R)	3.5883	-0.023	875 - 890	3.5965	3.5815	3.6038	-5.2	3.6321	-4.9	3.7088	-3.4	-
S Africa (Fin.)	(R)	4.5300	-0.117	200 - 400	4.6350	4.4900	4.5637	-8.9	4.6225	-8.2	-	-	-
South Korea	(Won)	805.800	-0.7	600 - 000	806.000	805.400	808.8	-4.5	812.3	-3.2	830.8	-3.1	-
Taiwan	(T$)	26.4560	-0.0105	520 - 600	26.4600	26.4300	26.476	-0.9	26.516	-0.9	-	-	-
Thailand	(Bt)	25.0150	-0.055	050 - 250	25.0250	25.0100	25.0875	-3.5	25.215	-3.2	25.695	-2.7	-

†SDR rate for Aug 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Aug 11. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Aug 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.24	16.64	4.850	2.048	4977	5.448	21.35	498.3	405.0	24.29	4.072	2.016	4.306	3.118	311.6	2.552
Denmark	(DKr)	51.98	10	8.650	2.521	1.065	2587	2.832	11.10	259.0	210.5	12.63	2.117	1.048	2.238	1.620	162.0	1.326
France	(FFr)	60.09	11.56	10	2.914	1.231	2991	3.274	12.83	299.4	243.3	14.60	2.447	1.211	2.587	1.873	187.3	1.533
Germany	(DM)	20.62	3.967	3.431	1	0.422	1026	1.123	4.401	102.7	83.50	5.008	0.840	0.416	0.888	0.643	64.26	0.526
Ireland	(I£)	48.83	9.394	8.126	2.368	1	2430	2.660	10.42	243.3	197.7	11.86	1.988	0.984	2.102	1.522	152.2	1.246
Italy	(L)	2.009	0.387	0.334	0.097	0.041	100.	0.109	0.429	10.01	8.137	0.488	0.082	0.041	0.087	0.063	6.262	0.051
Netherlands	(Fl)	18.35	3.531	3.054	0.890	0.376	913.4	1	3.918	91.45	74.32	4.458	0.747	0.370	0.790	0.572	57.20	0.468
Norway	(NKr)	46.85	9.012	7.796	2.272	0.959	2331	2.552	10	233.4	189.7	11.38	1.907	0.944	2.017	1.460	146.0	1.195
Portugal	(Es)	20.07	3.861	3.340	0.973	0.411	998.8	1.093	4.284	100.	81.27	4.875	0.817	0.405	0.864	0.625	62.54	0.512
Spain	(Pta)	24.69	4.751	4.110	1.198	0.506	1229	1.345	5.271	123.0	100.	5.998	1.005	0.498	1.063	0.770	76.95	0.630
Sweden	(SKr)	41.17	7.920	6.851	1.997	0.843	2049	2.243	8.788	205.1	166.7	10	1.676	0.830	1.773	1.283	128.3	1.051
Switzerland	(SFr)	24.56	4.725	4.087	1.191	0.503	1222	1.338	5.243	122.4	99.48	5.965	1	0.495	1.057	0.765	76.53	0.627
UK	(£)	49.61	9.544	8.256	2.406	1.016	2469	2.703	10.59	247.2	200.9	12.05	2.020	1	2.136	1.546	154.6	1.266
Canada	(C$)	23.23	4.468	3.865	1.126	0.476	1156	1.265	4.958	115.7	94.05	5.641	0.946	0.468	1	0.724	72.38	0.593
US	($)	32.09	6.173	5.340	1.556	0.657	1597	1.748	6.850	159.9	129.9	7.794	1.307	0.647	1.382	1	100.0	0.819
Japan	(Y)	320.9	61.73	53.40	15.56	6.572	15970	17.48	68.50	1599	1299	77.94	13.07	6.468	13.82	10.00	1000.	8.189
Ecu		39.19	7.539	6.521	1.900	0.803	1950	2.135	8.365	195.3	158.7	9.518	1.596	0.790	1.687	1.221	122.1	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.6404	0.6437	+0.0030	0.6459	0.6396	67,118	96,235
Dec	0.6450	0.6439	+0.0030	0.6450	0.6407	646	5,362
Mar	0.6432	0.6448	+0.0029	0.6446	0.6432	82	1,564

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.7612	0.7671	+0.0061	0.7700	0.7603	28,701	42,212
Dec	0.7669	0.7683	+0.0059	0.7702	0.7635	245	1,625
Mar	-	0.7706	+0.0058	0.7700	0.7676	9	31

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.9991	0.9999	+0.0008	1.0079	0.9980	28,467	64,388
Dec	1.0095	1.0070	+0.0008	1.0113	1.0051	848	6,370
Mar	-	1.0148	+0.0008	1.0150	1.0145	10	1,124

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	1.5466	1.5456	-0.0022	1.5498	1.5424	24,607	33,127
Dec	1.5450	1.5428	-0.0024	1.5480	1.5392	263	786
Mar	1.5394	1.5398	-0.0026	1.5410	1.5380	1	152

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
1.450	9.44	9.29	9.30	-	-	0.06
1.475	6.99	6.91	7.05	-	0.02	0.24
1.500	4.49	4.60	4.96	-	0.20	0.63
1.525	2.04	2.65	3.19	-	0.68	1.33
1.550	-	1.24	1.86	0.36	1.73	2.46
1.575	-	0.45	1.00	2.81	3.41	4.00

Previous day's vol., Calls 35,825 Puts 12,671. Prev. day's open int., Calls 603,245 Puts 469,466

UK INTEREST RATES

LONDON MONEY RATES

Aug 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	$4\frac{3}{4}$ - $2\frac{1}{2}$	$4\frac{7}{8}$ - $4\frac{3}{8}$	$5\frac{3}{16}$ - $5\frac{1}{16}$	$5\frac{11}{32}$ - $5\frac{9}{16}$	$6\frac{3}{16}$ - $6\frac{1}{16}$	$6\frac{13}{32}$ - $6\frac{17}{32}$
Sterling CDs	-	-	$5\frac{3}{32}$ - $4\frac{31}{32}$	$5\frac{9}{16}$ - $5\frac{7}{16}$	$6\frac{1}{16}$ - 6	$6\frac{3}{4}$ - $6\frac{5}{8}$
Treasury Bills	-	-	5 - $4\frac{7}{8}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	-	-
Bank Bills	-	-	$5\frac{1}{16}$ - $4\frac{31}{32}$	$5\frac{5}{8}$ - $5\frac{1}{2}$	$5\frac{31}{32}$ - $5\frac{17}{32}$	-
Local authority deps.	$4\frac{13}{16}$ - $4\frac{11}{16}$	$4\frac{7}{8}$ - $4\frac{3}{4}$	$5\frac{1}{8}$ - 5	$5\frac{5}{8}$ - $5\frac{1}{2}$	$6\frac{1}{8}$ - 6	$6\frac{7}{8}$ - $6\frac{3}{4}$
Discount Market deps	$4\frac{3}{4}$ - 3	$4\frac{13}{16}$ - $4\frac{11}{16}$	-	-	-	-

UK clearing bank base lending rate $5\frac{1}{4}$ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	$1\frac{1}{2}$	4	$3\frac{3}{4}$	$3\frac{3}{4}$	$3\frac{1}{2}$

Certs of Tax dep. under £100,000 is $1\frac{1}{2}$pc. Deposits withdrawn for cash $\frac{1}{4}$pc.
Ave. tender rate of discount 5.3747pc. ECGD fixed rate Stg. Export Finance. Make up day July 29, 1994. Agreed rate for period Aug 24, 1994 to Sep 25, 1994, Schemes II & III 6.50pc. Reference rate for period July 1, 1994 to July 29, 1994, Schemes IV & V 5.2460pc. Finance House Base Rate $6\frac{1}{2}$pc from Aug 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Aug 12	Aug 5		Aug 12	Aug 5
Bills on offer	£500m	£500m	Top accepted rate	5.3747%	5.3747%
Total of applications	£2345m	£3012m	Ave. rate of discount	5.3747%	5.3747%
Total allocated	£500m	£500m	Average yield	5.4477%	5.4477%
Min. accepted bid	£98.680	£98.680	Offer at next tender	£500m	£500m
Allotment at min. level	100%	100%	Min. accept. bid 182 days	-	-

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

■ Pound in New York

Aug 12	— Close —	— Prev. close —
£ spot	1.5465	1.5473
1 mth	1.5457	1.5464
3 mth	1.5436	1.5445
1 yr	1.5317	1.5327

FIXED INTEREST RATES

MONEY RATES

August 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	$4\frac{7}{8}$	$5\frac{1}{4}$	6	$6\frac{1}{8}$	$6\frac{1}{2}$	7.40	4.50	-
week ago	$4\frac{15}{16}$	$5\frac{1}{4}$	$5\frac{5}{8}$	$5\frac{7}{8}$	6	7.40	4.50	-
France	$5\frac{1}{4}$	$5\frac{3}{8}$	$5\frac{9}{16}$	6	$6\frac{1}{8}$	5.00	-	6.75
week ago	$5\frac{3}{8}$	$5\frac{5}{8}$	$5\frac{7}{16}$	$5\frac{7}{8}$	$5\frac{15}{16}$	5.00	-	6.75
Germany	4.93	4.95	4.95	4.98	5.18	6.00	4.50	4.85
week ago	4.93	4.95	4.95	4.95	5.05	6.00	4.50	4.85
Ireland	5	$5\frac{3}{4}$	$5\frac{15}{16}$	$6\frac{1}{4}$	$6\frac{3}{4}$	-	-	6.25
week ago	$4\frac{15}{16}$	$5\frac{3}{4}$	$5\frac{7}{8}$	$6\frac{1}{4}$	$6\frac{1}{2}$	-	-	6.25
Italy	$8\frac{1}{2}$	$9\frac{1}{4}$	$9\frac{15}{16}$	$10\frac{3}{8}$	$10\frac{3}{4}$	-	7.50	8.20
week ago	$8\frac{1}{4}$	$9\frac{1}{4}$	$8\frac{1}{2}$	$8\frac{7}{8}$	$9\frac{3}{4}$	-	7.00	8.20
Netherlands	4.85	5.03	5.06	5.18	5.44	-	5.25	-
week ago	4.85	5.03	4.92	5.01	5.22	-	5.25	-
Switzerland	4	$4\frac{1}{8}$	$4\frac{1}{4}$	$4\frac{3}{8}$	$4\frac{3}{4}$	6.625	3.50	-
week ago	$4\frac{3}{8}$	$4\frac{1}{8}$	$4\frac{1}{8}$	$4\frac{1}{2}$	$4\frac{5}{8}$	6.625	3.50	-
US	$4\frac{3}{8}$	$4\frac{5}{8}$	$4\frac{7}{8}$	$5\frac{1}{8}$	$5\frac{9}{16}$	-	3.50	-
week ago	$4\frac{1}{4}$	$4\frac{5}{8}$	$4\frac{13}{16}$	$5\frac{1}{8}$	$5\frac{9}{16}$	-	3.50	-
Japan	$2\frac{1}{8}$	$2\frac{3}{16}$	$2\frac{1}{8}$	$2\frac{1}{4}$	$2\frac{9}{16}$	-	1.75	-
week ago	$2\frac{1}{8}$	$2\frac{3}{16}$	$2\frac{1}{8}$	$2\frac{1}{4}$	$2\frac{1}{2}$	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	$4\frac{5}{8}$	$4\frac{7}{8}$	$5\frac{1}{8}$	$5\frac{5}{8}$	-	-	-
week ago	-	$4\frac{9}{16}$	$4\frac{3}{4}$	$5\frac{1}{8}$	$5\frac{5}{8}$	-	-	-
US Dollar CDs	-	4.54	4.78	5.09	5.65	-	-	-
week ago	-	4.54	4.71	5.03	5.61	-	-	-
SDR Linked Ds	-	$3\frac{1}{2}$	$3\frac{3}{8}$	$3\frac{3}{4}$	4	-	-	-
week ago	-	$3\frac{1}{2}$	$3\frac{3}{8}$	$3\frac{3}{4}$	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 6; 3 mths: $6\frac{1}{8}$; 6 mths: $6\frac{3}{8}$; 1 year: $6\frac{3}{4}$. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Aug 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5 - $4\frac{7}{8}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{5}{8}$ - $5\frac{1}{2}$	6 - $5\frac{7}{8}$	$6\frac{3}{8}$ - $6\frac{1}{8}$	$6\frac{1}{2}$ - $6\frac{1}{4}$
Danish Krone	$5\frac{1}{2}$ - 5	$6\frac{3}{4}$ - $6\frac{1}{4}$	7 - $6\frac{1}{2}$	7 - $6\frac{1}{2}$	7 - $6\frac{1}{2}$	$7\frac{1}{2}$ - 7
D-Mark	$4\frac{5}{8}$ - $4\frac{1}{2}$	5 - $4\frac{7}{8}$	5 - $4\frac{7}{8}$	5 - $4\frac{7}{8}$	$5\frac{3}{16}$ - $5\frac{1}{16}$	$5\frac{3}{8}$ - $5\frac{1}{4}$
Dutch Guilder	5 - $4\frac{7}{8}$	5 - $4\frac{7}{8}$	$5\frac{1}{16}$ - $4\frac{15}{16}$	$5\frac{1}{16}$ - $4\frac{15}{16}$	$5\frac{3}{8}$ - $5\frac{1}{8}$	$5\frac{7}{16}$ - $5\frac{5}{16}$
French Franc	$5\frac{7}{16}$ - $5\frac{5}{16}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{11}{16}$ - $5\frac{9}{16}$	$5\frac{13}{16}$ - $5\frac{11}{16}$	$6\frac{1}{16}$ - $5\frac{15}{16}$	$6\frac{3}{8}$ - $6\frac{1}{4}$
Portuguese Esc.	$12\frac{1}{8}$ - $11\frac{7}{8}$	$13\frac{1}{4}$ - $12\frac{1}{4}$	14 - $12\frac{1}{2}$	$12\frac{3}{8}$ - $11\frac{3}{4}$	$12\frac{3}{8}$ - $11\frac{3}{4}$	12 - $11\frac{1}{2}$
Spanish Peseta	$7\frac{13}{16}$ - $7\frac{9}{16}$	$7\frac{7}{8}$ - $7\frac{5}{8}$	$8\frac{1}{16}$ - $7\frac{7}{8}$	$8\frac{1}{8}$ - 8	$8\frac{1}{2}$ - $8\frac{5}{16}$	$8\frac{5}{8}$ - $8\frac{1}{2}$
Sterling	$4\frac{7}{8}$ - $4\frac{3}{4}$	$4\frac{13}{16}$ - $4\frac{17}{32}$	$5\frac{3}{16}$ - $5\frac{1}{16}$	$5\frac{11}{16}$ - $5\frac{9}{16}$	$6\frac{3}{16}$ - $6\frac{1}{16}$	$6\frac{13}{16}$ - $6\frac{17}{32}$
Swiss Franc	$4\frac{1}{8}$ - $3\frac{7}{8}$	$4\frac{1}{4}$ - 4	$4\frac{1}{4}$ - $4\frac{1}{8}$	$4\frac{7}{16}$ - $4\frac{5}{16}$	$4\frac{5}{8}$ - $4\frac{1}{2}$	$4\frac{13}{16}$ - $4\frac{11}{16}$
Can. Dollar	5 - $4\frac{3}{4}$	$5\frac{3}{8}$ - $5\frac{1}{4}$	$5\frac{7}{16}$ - $5\frac{5}{16}$	$5\frac{13}{16}$ - $5\frac{11}{16}$	$6\frac{7}{16}$ - $6\frac{5}{16}$	$7\frac{3}{16}$ - $7\frac{1}{16}$
US Dollar	$4\frac{1}{4}$ - $4\frac{1}{8}$	$4\frac{1}{2}$ - $4\frac{3}{8}$	$4\frac{11}{16}$ - $4\frac{9}{16}$	$4\frac{15}{16}$ - $4\frac{13}{16}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{7}{8}$ - $5\frac{3}{4}$
Italian Lira	9 - $7\frac{1}{2}$	$9\frac{3}{8}$ - $9\frac{1}{4}$	$9\frac{11}{16}$ - $9\frac{9}{16}$	$9\frac{23}{32}$ - $9\frac{19}{32}$	$10\frac{3}{16}$ - $10\frac{1}{16}$	$10\frac{7}{8}$ - $10\frac{3}{4}$
Yen	$2\frac{3}{8}$ - $2\frac{3}{16}$	$2\frac{3}{8}$ - $2\frac{1}{8}$	$2\frac{3}{8}$ - $2\frac{1}{4}$	$2\frac{3}{8}$ - $2\frac{1}{4}$	$2\frac{7}{8}$ - $2\frac{3}{8}$	$2\frac{31}{32}$ - $2\frac{19}{32}$
Asian $Sing	$3\frac{7}{8}$ - $3\frac{3}{4}$	$3\frac{7}{8}$ - $3\frac{3}{4}$	$4\frac{7}{16}$ - $4\frac{5}{16}$	$4\frac{3}{4}$ - $4\frac{5}{8}$	$5\frac{3}{16}$ - $5\frac{1}{16}$	$5\frac{13}{16}$ - $5\frac{11}{16}$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.82	94.86	+0.03	94.90	94.80	104,039	424,181
Dec	94.11	94.15	+0.04	94.18	94.07	191,170	474,721
Mar	93.85	93.89	+0.04	93.92	93.80	102,980	327,688

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.23	95.26	+0.01	95.30	95.22	1,138	17,834
Dec	94.62	94.66	+0.03	94.70	94.62	627	9,152
Mar	94.37	94.39	+0.03	94.41	94.34	1,031	3,854

All Open interest figs. are for previous day

BANK RETURN

BANKING DEPARTMENT	Wednesday August 10 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,152,941,643	-3,715,696
Bankers deposits	1,524,026,326	+22,886,705
Reserve and other accounts	3,049,459,436	-63,645,056
	5,740,980,407	-44,664,017
Assets		
Government securities	1,010,683,708	-6,216,000
Advance and other accounts	2,040,146,800	-2,264,783,473
Premises, equipment and other secs	2,681,075,710	+2,245,537,815
Notes	8,883,428	+2,716,176
Coin	203,661	-19,534
	5,740,980,407	-44,664,017
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,271,111,572	-42,716,176
Notes in Banking Department	8,888,428	+2,716,176
	18,280,000,000	-40,000,000
Assets		
Government securities	8,981,666,222	+1,097,162,209
Other Securities	9,298,333,778	-1,137,162,209
	18,280,000,000	-40,000,000

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due		Last xd	City line
Shorts (Lives up to Five Years)								
Treas 9pc 1994‡‡		$100\frac{3}{8}$	-.1	1,900	My17	Nv17	11.4	1345
12pc 1995		$102\frac{13}{32}$	-.2	2,350	Ja25	Jy25	20.6	1294
Exch 3pc Gas 90-95		$98\frac{1}{32}$	—	214	My1	Nv1	25.3	1271
$10\frac{1}{4}$pc 1995		$103\frac{13}{32}$	-.2	2,500	Ja21	Jy21	14.6	1254
Treas $12\frac{3}{4}$pc 1995‡‡		107	-.3	840	My15	Nv15	8.4	1298
Funding $3\frac{1}{2}$pc '99-4		$72\frac{1}{32}$	-2.0	543	Ja14	Jy14	7.8	1274
Conversion $9\frac{1}{2}$pc 2004		$104\frac{3}{32}$	-1.7	3,412	Ap25	Oc25	21.3	1248
Treas $6\frac{3}{4}$pc 2004‡‡		$87\frac{1}{32}$	-1.8	6,250	My26	Nv26	19.4	-
Conv 9 $\frac{1}{2}$ pc 2005		105	-1.8	4,842	Ap18	Oc18	14.3	1247
Treas $12\frac{1}{2}$pc 2003-5		$120\frac{7}{8}$	-1.4	2,200	My21	Nv21	14.4	1295
Index-Linked	(b)							
2pc '96	(67.9)	$195\frac{1}{2}$xd	0.2	1,200	Mr16	Se16	10.8	1313
$4\frac{5}{8}$pc '98‡‡	(135.6)	$107\frac{1}{32}$	0.2	800	Ap27	Oc27	21.3	-
$2\frac{1}{2}$pc '01	(78.3)	165	0.2	1,500	Mr24	Se24	15.2	1316
$2\frac{1}{2}$pc '03	(78.8)	$160\frac{7}{8}$	0.2	1,050	My20	Nv20	13.4	1317
$4\frac{3}{8}$pc '04‡‡	(135.6)	$108\frac{1}{32}$	0.1	1,800	Ap21	Oc21	22.4	-

Other Fixed Interest

STOCK INDICES

	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	High	Low	High	Low
FT-SE 100	3142.3	3138.2	3167.0	3168.6	3171.9	3520.3	2876.6	3520.3	986.9
FT-SE Mid 250	3728.8	3726.6	3716.9	3728.4	3728.7	4152.8	3363.4	4152.8	1379.4
FT-SE Mid 250 ex ITs	3736.5	3731.5	3720.6	3732.0	3733.3	4160.7	3362.4	4160.7	1378.3
FT-SE-A 350	1589.7	1587.9	1598.1	1598.7	1601.1	1778.3	1451.3	1778.3	664.5
FT-SE SmallCap	1877.40	1876.11	1874.04	1871.37	1867.53	2094.88	1777.31	2094.88	1363.79
FT-SE SmallCap ex ITs	1845.98	1843.54	1841.59	1839.53	1835.03	2060.72	1752.58	2060.72	1363.79
FT-SE-A All-Share	1577.78	1576.04	1585.28	1586.58	1587.71	1764.11	1445.85	1764.11	61.92

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	TSB	5.25
Bank of Baroda	5.25	Girobank	5.25	●United Bk of Kuwait	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	Unity Trust Bank Plc	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Heritable & Gen Inv Bk.	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25		
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai.	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of London Investment Banking Association
* In administration

FT GOLD MINES INDEX

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl		£22¼	-2.2	Q61%	ф	Sept May	1.9	–
ANZ A$		195	-1.5	Q20c	0.7	Jan Jul	9.12	–
Abbey National	†N☐	389	0.3	15.5	2.1	May Oct	14.3	5411
Allied Irish I£	♣†N☐	247	-5.7	Q53½%	2.7	Oct May	28.2	1364
Anglo Irish I£	♣N☐	57	-1.7	Q17.9%	1.7	Jan Jul	6.6	1356
Asahi Y		780½	-1.7	Q14%	ф	Jun Dec	12'92	3049
Banco Bil Viz Pta		€19¾	-4.4	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£26½	-7.4	Q38%	2.0	MyJnOcJa	1.8	–
Bk Ireland I£	♣☐	267	-4.6	Q13.3%	3.2	Jul Dec	18.5	1360
Bank Scotland	♣N☐	185	-3	5.05	2.4	Dec Jul	16.5	1742
9¼pc Pf		114	-7	9¼%	–	May Nov	25.4	1482
9¼pc Pf		119¼	-4	9¼%	–	May Nov	25.4	1685
Barclays	♣†N☐	547	-2.1	16.65	1.9	Oct May	14.3	1764
Dai Ichi Kan Y		£12¼	0.4	Q17%	1.2	Jan Dec	27.9	–
Deutsche DM		£335¼	-3.0	Q33%	–	May	5'93	–
Espirito Santo		£27¾	1.3	Q80c	5.2	Jan	6'93	5187
First Nat Fin	N☐	66xd	–	1.5	–	Mar Aug	18.7	2571
6.3pc Cv Pf		77	-1.3	6.3%	–	Jul Jan	6.6	2570
7pc Cv Pf		125½	-8	7.0	–	Jul Jan	6.6	1488
Fuji Bank Y		1492	0.5	Q17%	ф	Dec Jun	7'93	–
HSBC HK	N☐	772	-4.5	23.5	2.4	Nov Jun	14.3	2786
HSBC (75p Shs)	N☐	789	-4.3	23.5	2.4	Nov Jun	14.3	2779
Lloyds	†N☐	545xd	0.3	23.0	2.1	Oct May	8.8	3171
Mitsubishi Y		216¾	0.2	Q17%	ф	Jun Dec	12'92	–
Mitsu Tst & Bk Y		976½	-4.3	Q16%	12.4	Jun Dec	12'92	–
Mitsui Tst & Bk Y		782½	0.2	Q17%	5.5	Jun Dec	12'92	–

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL EXPLORATION & PRODUCTION - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TRANSPORT - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		227	—	Q375c	1.9	Oct Apr	3'93	–
Barlow	Z	£4[illegible]	—	Q18c	–	Jul	20.6	–
Gold Flds Prop R		112	—	Q52c	ϕ	Feb Sep	31.1	–
MK Props	s	65	—	Q44.7c	0.3	Feb Oct	19.10	–
SASOL	♥	394	—	Q78c	–	Oct	23.9	3919
SA Brews		£12[illegible]	3.0	Q155c	2.2	Dec Jun	30.8	–
Tiger Oats	†	620	1.1	Q85c	2.9	Jul Feb	6.6	–
Tongaat-Hulett		681	—	Q85c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ϕ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings" P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Polartechnics (Healthcare), Lon & St Lawrence (Inv Trust). Edinburgh Oil & Gas Wrts (Oil Explm), Exco (Other Fincl) and South Country Homes (Prop). Deletions: Bowater Incorporated (Americans).

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4 pm close August 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
17⅞	13⅛	AAR	0.48	3.3	463	135	14⅝	14⅛	14½	
16⅞	12⅝	A L Labs A	0.18	1.3	31	94	13⅝	13½	13⅝	
75¼	57⅝	AMP x	1.68	2.3	25	1632	73¼	72⅝	72⅞	-⅛
72¾	52⅛	AMR			99	3141	56⅞	55½	56½	-¼
5	3⅜	ARX			13	178	4	3⅞	3⅞	
56⅛	38⅜	ASA	2.00	4.4	30	704	46⅛	45¾	45¾	-⅜
31⅛	25⅛	AbbotL	0.76	2.7	16	5643	28¾	28¼	28⅝	+¼
13¾	11⅛	AbitibiPr	0.50	3.8	9	z100	13¼	13¼	13¼	
23⅝	17¾	ABM Ind	0.52	2.4		26	21⅞	21⅝	21⅞	
14⅜	11⅛	Acptneain			29	160	14¼	14⅛	14¼	+¼
31	22¾	ACE Ltd	0.44	1.9	3	152	23¼	23⅛	23⅛	
12½	10⅛	ACM Gvt In x	1.09	10.4		534	10⅝	10½	10½	-⅛
10⅛	7⅞	ACM GvOpp x	0.80	9.8		42	8⅛	8⅛	8⅛	-⅛
10⅝	7⅞	ACM Gvt Sp x	0.96	12.2		233	7⅞	7¾	7⅞	+⅛
12	9	ACM Gvt Se x	1.09	12.0		235	9⅛	d9	9⅛	+⅛
11¾	8⅞	ACM Man x	1.08	12.7		373	8⅝	d8⅜	8½	+⅛
9¼	8	ACM Mosgd x	0.72	9.0		342	8⅛	d8	8	
15½	8¾	AcmeClv x	0.44	3.9	14	67	11⅜	11⅛	11⅜	
9⅞	6½	Acme Elect			7	44	9	8¾	9	+¼
28⅞	23	Acordia	0.60	2.4	12	4	25½	25½	25½	-⅛
10⅝	5¾	Actava	0.36	3.3	3	1128	u11	10⅝	10¾	+¼
15⅝	11¾	Acuson			94	32	12⅜	12¼	12¼	-⅛
18⅜	16½	Adams Expr	0.48	2.8	0	48	17⅜	17¼	17⅜	+⅛
64	46½	Ad Micro	3.00	5.2		38	58½	58	58⅛	
31¾	16⅞	AdvMic	3.00	10.6	12	7489	28⅜	28⅛	28⅜	+⅜
6⅞	5	Advest Grp	0.16	3.1	8	27	5¼	5⅛	5⅛	
20	15	Aileen Inc	0.10	0.6	110	787	16⅝	16⅜	16½	+⅛

Continued on next page

مكتبة الاصل

4 pm close August 12

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
30¼	25	StJosL&P	1.80	6.7	13	14	27¼	27	27	+⅛
45	37¾	StPaul	1.50	3.4	4	1094	44¾	44¼	44½	+½
9⅛	5	Salant Crp			7	72	5⅝	5⅜	5⅝	
48⅞	32⅝	Sallie Mae	1.40	4.2	6	4806	33⅝	33¼	33⅝	+¼
13⅞	11⅞	Salomon Br	0.32	2.5		272	12¾	12⅝	12⅝	
52¼	41½	Salomon	0.64	1.5	6	1544	42½	41⅝	42½	+⅞
25	17½	SnDgGE	1.52	7.6	10	652	20	19¾	19⅞	
10	7½	SantaFeERs	0.16	1.7	9	339	9⅝	9⅜	9⅝	+⅛
15¼	13½	SFeGd				545	14⅝	14½	14½	-⅛
40	31½	SantaFePac	2.80	8.3	15	176	34¼	33¾	33¾	-½
26¼	18½	SanFeP	0.10	0.5	11	4543	20	19⅝	20	
26	19⅛	SaraLee	0.64	2.8	15	12877	22⅝	21¾	22½	+¼
50⅛	42⅛	Scana Corp	2.82	6.2	12	60	45½	45⅜	45⅜	-⅛
20½	12½	Scecorp	1.00	7.3	9	2683	13⅝	13⅝	13⅝	+⅛
40½	31¾	SchererRP			29	172	37½	37	37½	+⅝
69⅛	54½	SchrPl x	2.04	3.0	16	6537	u70	68½	69	+¾
63	50¾	Schlmb	1.20	2.1	24	2831	58⅞	58¼	58⅝	-⅛
33⅞	23¼	Schwab(C)	0.28	1.1	12	942	26⅝	26	26⅝	+⅝
10¾	8⅛	Schwitzer			26	120	9¼	9⅛	9⅛	-⅛
40	24⅞	SciAtl	0.12	0.3	78	392	39¼	39⅛	39⅜	
16⅞	13	Scotman	0.10	0.7	14	199	15⅛	14⅞	14⅞	-⅛
61¾	37¼	ScottP	0.80	1.3	16	4046	u62	61¼	61⅞	+⅞
28⅝	16⅞	ScuddrNAsF	0.21	0.9		220	23¼	23⅛	23¼	-⅛
12⅝	9½	ScuddrNEuF	0.16	1.6		269	10¼	10	10	-⅛
18¼	13½	SeaCnB x	0.70	4.2	8	2	16⅝	16⅝	16⅝	-¾
16½	14⅞	SeaC1.4625	1.46	9.1		z100	16	16	16	+¼
32	26¼	Seagrm	0.56	1.8	39	3126	30⅝	30⅜	30⅝	+⅜

AMEX COMPOSITE PRICES

4 pm close August 12

NASDAQ NATIONAL MARKET

4 pm close August 12

FT GUIDE TO THE WEEK

15 MONDAY

Japan's war memories

Emperor Akihito and Tomiichi Murayama, Japan's prime minister (left), attend a service in Tokyo marking the 49th anniversary of the end of the Second World War. Some 10 members of the Murayama cabinet may attend a more controversial ceremony at the capital's Yasukuni Shrine to pay homage to Japan's war dead – those buried there include war criminals. Last year, only five members of the government of Morihiro Hosokawa visited the shrine.

Germany's economics minister, Günter Rexrodt, is expected to present a positive analysis of the German economy. With two months before the federal elections, the governing coalition, now running nearly 8 points ahead of the opposition Social democrats and Greens in opinion polls, is keen to use encouraging economic indicators to help maintain its lead.

Pipeline talks open

Leaders from Russia, Turkey, Iran, Azerbaijan and Kazakhstan meet in Ashgabat to discuss the construction of a new gas pipeline to Europe. The existing pipeline does not have enough capacity to meet the export ambitions of Russia, Kazakhstan and Azerbaijan, the main energy producers in the former Soviet Union. Disputes between Russia and the two southern republics about access to the pipeline have worried western investors.

Trial in Albania: Five members of Omonia, an ethnic Greek political organisation in Albania, go on trial in the capital Tirana on charges of treason and espionage. Greece has threatened to veto European Union financial aid to Albania, claiming human rights abuses against the Greek minority.

Holidays: Austria, Belgium, Chile, Colombia, Croatia, Cyprus, France, parts of Germany, Greece, Lebanon, Luxembourg, Malta, Panama, Poland, Portugal, Slovenia, Spain, Venezuela (Assumption).

Argentina, Costa Rica, India (Independence Day), Italy (Summer Bank Holiday), Paraguay, S Korea (Independence Day).

16 TUESDAY

US rates poised to rise

The Federal Open Market Committee, which sets monetary policy for the Federal Reserve, is to meet in Washington. Most economists predict the Fed will decide to raise short term interest rates to head off what it sees as signs of incipient inflation.

Swedish inflation: The reasons for Sweden's surprise decision to lift interest rates last week may become clearer today when the country's July consumer price index is published.

The index, which rose from 1.8 per cent to 2.6 per cent between March and June, is expected to have continued its upward trend. The median expectation for July is 2.9 per cent.

Nigeria's high court in Abuja is to decide whether it can try Moshood Abiola, the banned winner of last year's annulled presidential election, for treason.

No decision about a prospective general strike by the Nigeria Labour Congress will be taken before the hearing, except in Lagos where opposition to the military government is strongest.

Oil workers' unions, however, say that they will stay on strike until the military hand over power to civilians.

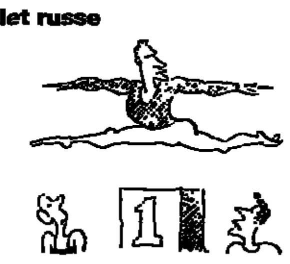
Sri Lanka holds a general election. It appears likely that the ruling United National party, which has governed the country for 17 years, will lose to the left-leaning People's Alliance, an eight-party coalition.

UK economy: The CBI distributive trades survey will be scanned for early indications of an upturn in official figures for July retail sales, due on Thursday.

Volume sales were unchanged between April and May, and up only 0.2 per cent in June.

However, recent consumer credit data and a strong CBI survey last month suggest that Britain's canny consumers were keen bargain-hunters in the summer sales.

Ballet russe



An international ballet competition devised in honour of the Russian ballerina Maya Plissetskaya begins in St Petersburg (to August 22).

Oz prey: The memoirs of Bob Hawke, the former Australian prime minister, are due to published.

Mr Hawke quit in late-1991 after a bitter leadership struggle with Paul Keating, the current PM, and the book is expected to provide insights into the Labor Party conflicts of that time.

17 WEDNESDAY

Palestine progresses

Shimon Peres, (left) Israel's foreign minister, will meet Nabil Shaath, senior Palestinian negotiator, in Cairo. They hope to speed implementation of the extension of Palestinian self-rule across the West Bank. The two sides will also begin discussions on the holding of national Palestinian elections due in mid-December.

An agreement is near to transfer power in the Israeli-occupied West Bank from Israeli to Palestinian hands in five areas: education, health, direct taxation, tourism, and social welfare.

Differences have emerged, however, about Jerusalem, the release of Palestinian prisoners, and the timing of elections.

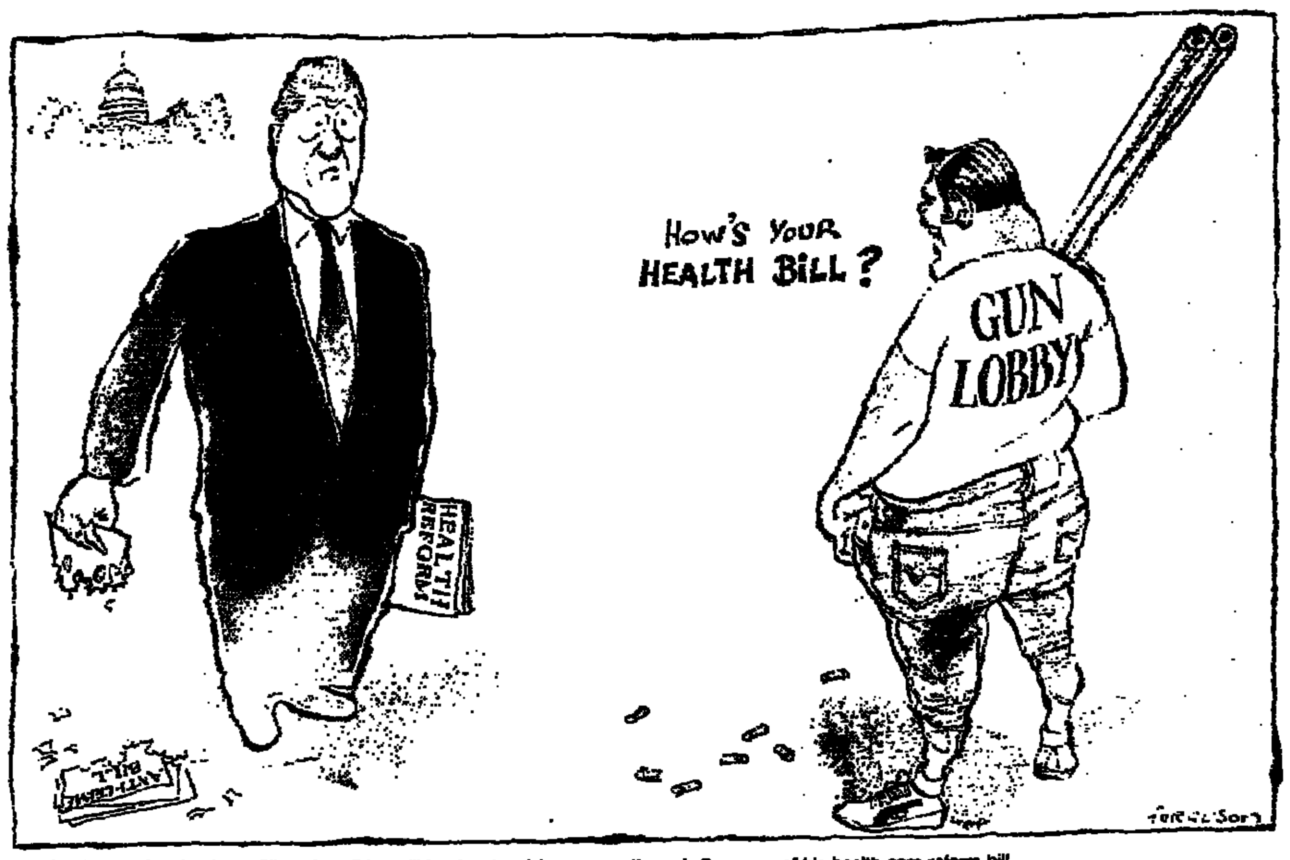
Global population: The United Nations Population Fund, based in New York, publishes the 1994 report on the State of the World's Population. The 65-page report describes sharp falls in developing country birth rates during the past two decades, and advocates wider distribution of contraceptives and better education for women in developing countries. It is published only a month before the opening of the UN's conference on population in Cairo. The Vatican has censured the US government's support for contraception and its tolerance of homosexuality.

Musicians invade

Lucerne's International Music Festival begins, with two concerts a day for more than three weeks (to Sep 10).

UK economy: Hopes are high that retail price inflation stayed subdued in July. Summer sales began later this year than last, which may offset adverse effects of less aggressive discounting. Economists are looking for a 0.2 per cent drop in the RPI between June and July, with the year-on-year rate unchanged at 2.6 per cent. The underlying rate, which excludes mortgage interest payments, may nudge higher from 2.4 per cent to 2.5 per cent, the middle of the government's target range.

Holidays: Indonesia (Independence Day).



One cloud darkening President Clinton's holiday will be the sluggish progress through Congress of his health care reform bill

18 THURSDAY

Mandela to outline policy

South Africa's president Nelson Mandela addresses parliament on his 100th day in office. He is expected to flesh out the so-called Reconstruction and Development Programme, his government's plan for social investment in areas such as housing, electrification, education and health. The speech is an important public relations effort aimed at meeting the demands of blacks for government action on poverty.

Israel and Jordan wind up their first substantive bilateral talks on trade, borders, water, tourism, finance and banking on the Israeli side of the Dead Sea. They are expected to announce progress on demarcation of the disputed border, sharing the waters of the Jordan and Yarmouk rivers, co-operation and joint marketing in tourism, steps to link the two countries' electricity grids, and transit of Jordanian goods through Israel's Mediterranean ports.

'A Level' results: Anxious UK parents and their teenage children will be put out of their misery with the release of examination results that are vital for university entrance.

Cricket: England meet South Africa for the third test at the Oval, London. (to August 22).

Commonwealth Games begin in Victoria, British Columbia, Canada (to August 28).

Holidays: Bahrain, Lebanon.

19 FRIDAY

Swedish poll manifesto out

Sweden's opposition Social Democrats, hot favourites to win next month's general election, present their manifesto with all eyes trained on their economic policies.

With the fragile state of the economy dominating the campaign, the party is under pressure to detail how it will deal with the big budget deficit, fast-growing public debt, and rising interest rates.

So far, markets have been less than enthusiastic about the Social Democratic emphasis on tax increases and unwillingness to be drawn on the need for deep cuts in the welfare state.

UK economy: The forecast deterioration in the trade balance with non-EU countries to a deficit of £600m in July, from £495m in June, should cause little concern.

UK export volumes are rising, giving economists fewer worries about the 1994 current account outlook than three months ago.

US president Bill Clinton turns 48, but he may not have much to celebrate unless Congress reverses its recent setback to the crime bill or acts to advance healthcare reform. Even his planned holiday on Martha's Vineyard in the run-up to the Labor Day holiday on September 5 threatens to be fraught with Washington-related distractions.

Holidays: Abu Dhabi, Afghanistan (Independence Day), Kuwait, Morocco, Tunisia.

20-21 WEEKEND

Mexican elections

Mexico goes to the polls on Sunday to elect a new president and Congress. Mr Ernesto Zedillo of the ruling Institutional Revolutionary Party is strong favourite to win the presidential race, while his party is expected to maintain its control over Congress. The opposition and about 15,000 national and several international observers will be watching for fraud.

Alpbach forum: Nine heads of state and the European Union Commission president, Jacques Delors, will hold an informal meeting on Sunday within the framework of the annual Alpbach forum in the Austrian Alps (to August 22). Topics will include questions of new neighbourly relations, security problems and cultural ties in the light of the forthcoming enlargement of the EU.

Chess: The Lloyds Bank's annual tournament starts at the Cumberland Hotel, London (until 29 August). With more than 30 grandmasters competing, it is Britain's strongest-ever open-to-all chess event. Winners qualify for the £100,000 Intel Grand Prix and a chance to compete against Gary Kasparov and Nigel Short.

Three Choirs Festival: Britain's oldest musical festival, going back to the early 18th century, begins at Hereford on Sunday.

Compiled by Patrick Stiles and Martin Mulligan. Fax: (+44) (0)71 873 3194.

ECONOMIC DIARY

Other economic news

Monday: US capacity utilisation figures could fuel speculation about higher rates if, as economists expect, there is only a marginal drop between June and July.

Wednesday: June average earnings and unit labour cost data form key points of interest in the UK's mid-month "super Wednesday" for economic releases. Consensus forecasts from MMS International point to unchanged wage inflation and a slight easing in the annual rate of unit wage cost inflation. July's unemployment figures are expected to show a further fall of about 16,000 last month.

Thursday: The Bundesbank council meets for the first time after its summer break. Few analysts expect a change in official interest rates.

Although UK markets are prepared for a rate rise later this year, the expected rise in retail sales in July should not trigger action, provided the picture is one of subdued inflation encouraging spending.

Analysts are not expecting any shocks from UK broad money and bank and building society lending figures, which are forecast to show a modest slowdown in growth in July compared with June.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	July industrial production	0.1%	0.5%
Aug 15	US	July capacity utilisation	83.8%	83.9%
	Japan	June industrial production†	-	-1.2%
	Japan	June shipments†	-	-3.2%
Tues	US	July housing starts	1.38m	1.35m
Aug 16	US	Johnson Redbook, w/e Aug 13	-	-0.7%
	UK	July public sector borrowing req	£1.5bn	£2.9bn
	Canada	July lead indicator*†	0.5%	0.5%
Wed	UK	July retail price indx*	-0.2%	0.0%
Aug 17	UK	July retail price indx**	2.6%	2.6%
	UK	Ditto, ex-mortgage int payments**	2.5%	2.4%
	UK	July unemployment rate	-18,000	-18,800
	UK	June average earnings	3.75%	3.75%
	UK	June unit wage costs 3M**	1.5%	1.7%
	Canada	June manufacturing new orders*	1%	-1.4%
Thur	US	June trage: goods & services	-$8.8bn	-$9.2bn
Aug 18	US	June merchandise trade (BOP)	-	-$14.1bn
	US	June merchandise exports, census	$41.7bn	$41.3bn
	US	June merchandise imports, census	$53.8bn	$54bn
	US	Initial claims, w/e Aug 13	325,000	321,000
	US	State benefits, w/e Aug 6	-	2.69m
	US	M2, w/e Aug 8	-$1.5bn	$0.6bn
	Japan	Jun overall pers consump/expend**	1.8%	-1.7%
	Japan	Ditto, workers only**	-	-2.1
	Japan	Jul money supply (M2, cash dep)**	1.6%	1.5%
	Japan	Aug whole'le price indx, 1st 10 days	-	-0.1%
	Japan	July broad liquidity**	-	3%
	UK	July retail sales*	0.3%	0.2%
	UK	July retail sales**	3.7%	3.3%
	UK	July M4*	0.4%	0.4%
	UK	July M4**	5.5%	5.7%
	UK	July M4, lending**	£2bn	£2.9bn
	UK	July bdg scty net new commitments	£3.3bn	£3.6bn
	Canada	June merchandise exports*†	4%	-2.5%
	Canada	June merchandise imports*†	-0.5%	6.2%
	Canada	June wage settlement increases	0.5%	0.3%
Frid	US	July treasury budget	-$33.2bn	$15.2bn
Aug 19	France	June industrial production*†	0.3%	0.3%
	France	June manufacturing production*†	0.3%	2.2%
	UK	July trade blance, ex-EC	-£600m	-£495m
	Canada	July consumer prices index*	0.2%	0.2%
	Canada	June retail sales*†	0.8%	1%
During the week...				
	Germany	July wholesale price indx*	0.2%	0.8%
	Germany	July producer prices indx*	0.1%	-0.1%
	Germany	July producer prices indx**	0.4%	0.4%
	Germany	M3 from 4th qtr base	10.4%	11.3%
	Germany	M3*	0.3%	-0.1%
	N'lands	July unemployment rate	7.4%	7.2%

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

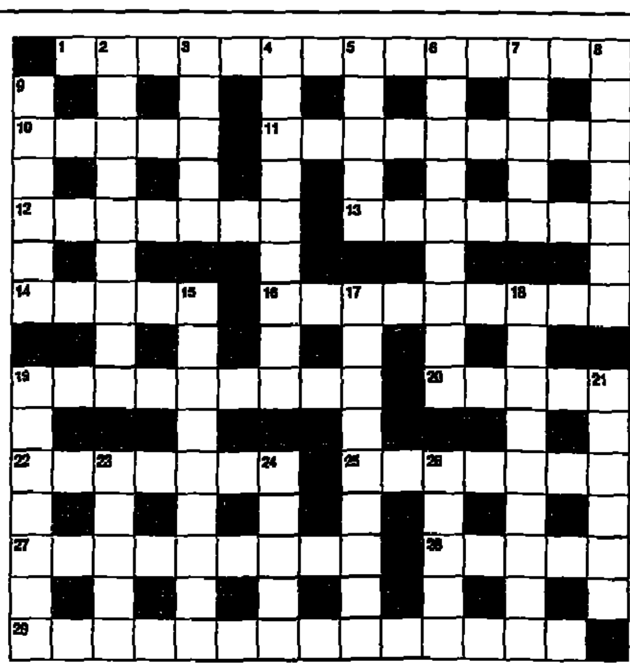
No.8,532 Set by ADAMANT

ACROSS

1 Room for lightweight Nasa schedule (5,9)
10 Brush the vessel (5)
11 Refused it anyway, having taken more than enough (9)
12 Break-A-Leg (Inc) can be heaven-sent (7)
13 One with little taste for embroidery (7)
14 Show indifference and rush off before midnight (5)
16 Bird will make a pound a ton or be put back on the ship (9)
19 She has the authority to use statements and stratagems, it's said (9)
20 Get cold at church (5)
22 Wager on small number in the middle (7)
25 Down to earth fellow will do over at Los Angeles University (7)
27 Past eight? Cook some supper (9)
28 Amenable to dropping the girl for walk (5)
29 How London landlords start their sentences (7,7)

DOWN

2 In great alarm, say your song of praise (9)
3 Reddish gold found in forty niner's state (5)
4 Urge head of committee to provide early transport (9)
5 Perfumery is rooted in the poor risk category (5)
6 Finding it painful to muscle in? (9)
7 Carmen's in, we hear (5)
8 Sure to fail on final remains (7)
9 Votes for putting the amended law first every time (6)
15 Power retained during unfortunate shortage of pellets (9)
17 First brandy, neat, not on the rocks – just the ticket here! (3-6)
18 Exceed thirty, possibly, but dismissed at the start (9)
19 Police officer on fundamental principle is capable of dual reaction (7)
21 One who detests holding long rope (6)
23 Walkover for premier's skill (5)
24 Some are given a talent at birth (5)
26 Unable to stomach hot singing (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday August 25, marked Monday Crossword 8,532 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday August 29.

Name..

Address..

Winners 8,520

J.B.P. Fraser, Nunthorpe, Middlesbrough
Mrs O.B. Ashley, Two Mile Ash, Bucks
C.R.M. Bangham, Islip, Oxfordshire
Pamela Boram, Farnborough, Hants
C.E. Bushnell, Lancaster, Pennsylvania, USA
J. Craig, New Malden, Surrey

Solution 8,520